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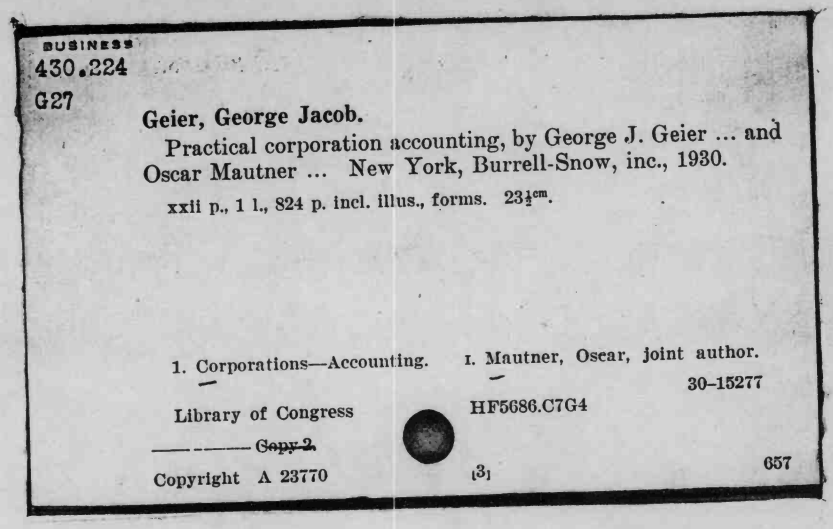

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PRACTICAL CORPORATION ACCOUNTING

BY

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AND

OSCAR MAUTNER, C. P. A.

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"ACCOUNTING SYSTEMS AND
METHODS OF INSTALLATION"

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TO OUR FACULTY ASSOCIATE
PROFESSOR ARTHUR H. ROSENKAMPFF
WHOSE KINDLY INTEREST HAS BEEN
A CONSTANT INSPIRATION

INTRODUCTION

The authors had long cherished the idea, previous to the period of years spent in compiling the present volume, that an up-to-date book on modern corporation accounting would fill a real and comprehensive need. An overwhelming majority of substantial businesses are now operating under the corporate form, so that problems of corporate accounting are receiving the principal share of attention of accountants. Although, to a considerable extent, the formulæ applied in handling corporate accounts are identical with those applicable to other forms of business organizations, the instances of differentiation, calling for specialized information and distinctive technique in corporation accounting are too numerous to be adequately presented as a subdivision in a general accounting treatise.

Two branches of the subject, which have hitherto either been inadequately treated or practically overlooked, demand in themselves space equivalent to the average work on accounting. The branches referred to are, first, the corporate legal attributes, determinative of or affecting the property rights and obligations of the corporation, and, second, the established devices for the erection, maintenance and control of the corporate as distinguished from the purely commercial records. The mastery of these branches is an essential qualification of the public accountant, or accounting executive, who assumes responsibility for the correctness of accounts and accounting methods of the corporation.

A knowledge of the legal aspects of corporate activities is as truly a prerequisite to efficient corporation accounting direction or supervision as a knowledge of the legal significance of a negotiable instrument in general commercial accounting. A clear understanding of each is necessary to assure a true representation of the particular transaction on the records. A mistake in interpretation of the effect of the transaction will result, in either case, in an error in what Professor Rosenkampff terms the "mechanical work," and hence the complete picture will be defective in that respect. In other words, he who is uncertain in "theory" respecting a certain corporate transaction cannot be depended upon safely to direct or check the practical work of presenting the correct picture either of the corporation's assets and liabilities, or the corporate status resulting from its aggregate corporate acts. No query probably

will be raised, today, as to the propriety of the accountant's assumption of the last mentioned function. It is the direct resultant, the inevitable consequence of his broadened capacity for service, whether rendered within or without the corporate organization. It is doubtless partially due to the increasing number of law-trained members of the accounting profession, and partially to the realization that much of the material involved consists of matter of fact, rather than matter of law. In other words, the functions of the accounting executive or external auditor do not or should not overlap with the functions of the legal counsel but after a particular corporate act, or series of acts, has taken place, pursuant to the advice or direction of counsel, it is the accountant's duty to see that the financial facts are fully and accurately recorded and that the records are arranged and safeguarded for convenient current and future consultation and use.

The function of arrangement, systematization, operation and summarization of corporate records cannot efficiently be performed without an intimate acquaintance with the established methods of corporations which have long been proven successful in practical use. To that end has been presented a liberal quantity of illustrations of forms, devices for controlling the proper operation and the accuracy of information and for checking the correctness of records, selected from the working systems of corporations of all sizes.

GEORGE J. GEIER
OSCAR MAUTNER

New York
May 5, 1930.

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PRACTICAL
CORPORATION ACCOUNTING

SECTION ONE

SCOPE OF CORPORATION ACCOUNTING

CHAPTER I

A STATEMENT OF PRINCIPLES

Different types of business organizations, representing, in the main, the single proprietorship, the co-partnership and finally the corporation, have in turn brought about the development of accounting records. From the mere semblance of a bookkeeping system of the small business man has been evolved the double entry method of bookkeeping, backed up by co-ordinate memoranda, to record properly the transactions of the most intricate type of business organization.

The subject of corporation accounting embraces the study and examination of all records and of all accounting procedures peculiar to the corporation. No new principles of accounting are encountered. The scientific basis of accounting is the same for all types of business organizations. The differences observed in dealing with the corporation are those of applications, due to the particular requirements and conditions incident to the corporate form. To a considerable extent therefore a comprehensive treatise on corporation accounting, such as is attempted herein, must comprise a presentation and discussion of sound accounting practices of corporations.

Since the study of corporation accounting methods must be predicated upon the assumption of a clear understanding of the nature of the corporation and its activities, it is essential to consider briefly what the corporation is, how it acts and what are the effects of its acts, from the legal standpoint.

Accounting and the Law

Regardless of the type of organization, the systematic arrangement of the accounts to represent accurately the results of financial operations of the business involves constant applications of legal definitions. In the case of the single proprietorship, those applications have usually to do with legal rights and legal effects of simple changes so familiar

that the ever present governing influence of the law is frequently overlooked. "A" sells an item to "B" for cash. He sells an item to "C" on credit. He sells an item to "D" and takes "D's" promissory note for thirty days. The mind of the bookkeeper instantly visualizes the results of these transactions in terms of debit and credit. Something has gone out of the business. Something has come in. The fact that these changes work the results recorded by him by virtue of legal rules does not occur to him. It is only when the circumstances develop a situation so obtrusive that he is dubious whether such a change has taken place at all, as for example, rejection of goods for cause, that consciousness of this constant legal factor registers.

In the case of the partnership, it is true that because of the existence of the contract of partnership, because of the peculiar legal status of the partners and because certain accounting practice is obviously founded upon the legal definition of the relationship, the controlling legal element in many of the transactions recorded becomes clearly apparent.

When the enterprise is conducted under the corporate form, however, the legal element assumes a constantly apparent and often a conspicuous aspect from the very beginning of the business until its termination. This is because of the fact that the corporation is a creature of the law, and its every transaction is impressed by the peculiar legal status.

Validity of Accounting Principles

It is important at the outset of the study of corporation accounting to recognize the dominant aspect of the law pertaining to all corporate transactions, simple or complex. The necessity for such recognition is emphasized by the fact that some statutory regulations and many of the decisions of the courts may seem to violate accounting theories developed along strictly logical lines. There can be only one position for the accountant to take under such circumstances. The law must prevail. It should be understood that all business transactions should be recorded in such a manner as to conform consistently to the law, and thus obviate at a future time the possibility of even the slightest question arising as to the authenticity and regularity of the accounting procedure. Accounting principles unsupported by the law of a given jurisdiction have no validity in that jurisdiction. If the decision of a court clearly establishes a certain doctrine then the valid accounting rule within the jurisdiction of that court must be consistent with the legal rule, until the decision in question is reversed or overruled, or

until the authority of the legal rule is abrogated by legislative enactment establishing a different legal rule. Under the system of precedents, characteristic of American law and of all other systems based upon the law of England, the principle underlying a particular decision will be deemed of imperative authority, controlling the decisions of like cases in the same court or of lower courts within the same jurisdiction. Edmund Burke wrote: "The English jurisprudence has not any other sure foundation, nor consequently, the lives and properties of the subject any sure hold, but in the various rules, principles and traditionary lines of decisions contained in the notes taken and from time to time published reports."

The only loophole for the champion of cherished accounting principles contradicted by a judicial decision is to endeavor to explain away the applicability of the doctrine by demonstrating that the circumstances of the case at hand are dissimilar to those which have been adjudicated. This course is perfectly permissible if the dissimilarity of fact can be clearly demonstrated, but it lies strictly within the province of the lawyer to attempt such a comparison. The advice of counsel should be obtained preferably in the form of a written opinion, when close legal questions affecting the corporation's accounts are involved.

Influence of Federal Laws on Corporation Accounts

Beyond the compliance with familiar principles of commercial law and the conformity in the case of partnership with the legal rules bearing upon that relationship, there are no direct legal requirements that affect the character of the books themselves or the methods of bookkeeping to be employed by either the individual proprietorship or partnership. In the case of the business corporation, however, the situation is somewhat different. In respect to the Federal laws no provision is found that designates the kind of books to be used or that expressly prescribes the accounts to be kept. Nevertheless, the Federal Income Tax Law does indirectly influence the bookkeeping methods of the corporation. In the first place, information called for in the report must be forthcoming, and it is incumbent upon the corporation to arrange its system of accounting so that this information can be readily produced when needed. If the accounts are not so arranged, the facts called for by the income tax blank may be ascertainable only after a very costly and arduous recasting of pertinent items.

Furthermore, under the Federal Income Tax Law, there is the implied decree that the burden of proof rests upon

the corporation, in that the corporation may be called upon to produce sufficient evidence, in the form of accounting and other records, in substantiation of its tax returns.

The Federal Government, through its Interstate Commerce Commission, prescribes the exact form in which the accounts of corporations engaged in interstate commerce shall be kept.

Requirements of State Laws

The statutes of the various states do not usually contain any provisions as to the books of account other than to require in some states that every stock corporation shall keep at its office correct books of account of all of its business and transactions and that such books of account shall be presumptive evidence of the facts therein so stated in any action or proceeding against such corporation or any of its officers, directors or agents. In some states, in case of insolvency, the directors are required to call a stockholders' meeting within a prescribed time thereafter and lay before them for inspection and examination, all the books of account and other records. No state statute expressly directs how the books of account shall be kept. However, what has been said respecting the necessity of planning the corporation's accounting system to supply imperative information for Federal Tax purposes applies with respect to the preparation of State Corporation Tax reports. The data called for in the return blanks must be made readily available by means of appropriate accounting methods.

Although state laws do not expressly dictate methods of keeping corporation accounts, it should be borne in mind that many statutory provisions may have a bearing upon the interpretation of the financial effects of corporate transactions. To the extent of such indirect determinations, therefore, the state laws may influence the bookkeeping methods of the corporation. The statutes of a number of the states go a step further in their regulations pertaining to corporate activities records, as distinguished from the financial accounts. The contents of certain of these books are sometimes specified in detail. Public service commissions in many of the states supply a uniform system of accounting for the public utilities.

The Fundamental Corporate Documents

The most important contract into which the corporation can enter is undoubtedly the contract with the state: the charter, by virtue of which it is permitted to exist and to

own property. There are many features of the charter, provided for under the corporation laws of most states, which affect the assets and liabilities of the corporation. It is as important for the accounting executives or advisers of the corporation to familiarize themselves with the contents of the charter as with the terms of important commercial contracts undertaken by the corporation in the course of business. It is customary to have a copy of the charter transcribed upon the first pages of the minute book for the reason that it is the first document in order of importance, as well as of time of receipt by the corporation.

Next to the charter in order of importance are the by-laws, which with the charter may be said to comprise the constitution of the corporation. The by-laws should be carefully studied by officers, executives and others responsible for or participating in the handling of the corporation's accounting problems. The by-laws usually contain authorizations, limitations, definitions and instructions relating to the corporation's property, finances and corporate transactions which it is imperative for those charged with the responsibility for the corporation's accounting methods and procedure to know thoroughly.

Subordinate in respect to governing effect to the charter and by-laws, but vitally important are resolutions adopted by stockholders and directors which are incorporated in the reports of meetings written in the minute book. These resolutions constitute inseparable elements in the history of asset or liability changes and one must be cognizant of them in order to be certain that the accounts will reflect the true results of such changes.

In accordance with their relative importance and controlling effect, to amend the charter usually requires a considerably involved and slow moving statutory procedure, and to amend the by-laws requires a prescribed formal action not involved in the amendment of a resolution. The examination by the accounting executive of the charter and by-laws is therefore conducted from the point of view of familiarization with all permanent regulations in order to ascertain which of them has a bearing on accounting operations. Although the desirability of change in the provisions contained in these documents may be apparent from the accounting standpoint, it is probable that other considerations may outweigh the reasons which the accounting officer or executive might advance. The examination by the accounting expert of the resolutions in the minute book, however, may be conducted from a different angle. As will appear from discussions in a later chapter, the procedure of correction of inaccurate reports and poorly phras-

ed expressions in the minutes is relatively simple in most instances and the accounting officer or adviser can bring about the application of corrective measures which are necessary from the standpoint of correct accounting procedure.

Qualification for Supervision of Corporation Accounting

Although legal rules and the recording of corporate financial transactions are inseparably interwoven, it does not follow that the corporation accountant must have an extensive legal knowledge. He should be well grounded in the fundamentals of corporation law and of corporate practice. Without such a groundwork, his work will be limited to routine applications of formulæ which he does not properly comprehend and like an automaton, he will frequently stray from the proper path because of the absence of intelligent direction. Every accountant should have a knowledge of business law including contracts, agency and negotiable instruments. If he is to assume responsibility for the accounts of a corporation, his equipment should embrace a knowledge of the general rules of corporation law, of the pertinent statutory provisions of the state, of the fundamental corporate documents, of formal corporate action and of the established methods of recording corporate activities. The line of demarcation defining the degree of corporate legal information desirable for the corporation accountant, who has not taken a law course, may be drawn as follows:

He should be cognizant of all corporate legal information essential to the intelligent performance of his duties, but he should not attempt to solve on his own account difficult legal problems, and when in doubt, such questions should be referred to the corporation's legal counsel. It should be noted that when an accounting executive or adviser of the corporation is equipped with an adequate corporate legal fund of information, the legal effects of familiar corporate transactions take their place in his mental picture as simple facts with the appropriate accounting disposition clearly defined. When the unusual situation is encountered, a sufficient legal foundation on the part of the accountant warns him of the dangers of accounting dispositions not sponsored by competent legal opinion.

Relation of the Minutes to the Accounts

The importance of strict accordance between the reports of corporate acts contained in the minutes and the financial

facts presented in the corporation's accounts will be made plain by considering their respective evidential values. When they are properly authenticated the minutes are the best evidence of the acts of the corporation, embodied in resolutions. Failure to produce the minutes in court must be explained and excused before parol or secondary evidence can be introduced. It has been held that even such an act of the corporation as the declaration of a dividend must be made a matter of record and cannot be proved by parol evidence in collateral suits between the corporation and its stockholders. Acts of the directors of a corporation can be shown only by their recorded vote. It is true that correction of the omission or error in the minutes can be enforced by bringing an appropriate proceeding and if it is apparent upon the face of the minutes that they are incomplete they cannot be treated as conclusive evidence of what occurred. In general, however, when statutory provisions require corporations to keep a record of their transactions or proceedings and the minutes contain a record of the action taken, it will be presumed, *prima facie*, that the record covers the entire transaction. Just as the minutes are the best evidence of corporate acts so the books of account are the best evidence of corporate financial transactions recorded therein. In the case of the declaration of dividend referred to, of which the minutes were held to be the best evidence, after the dividends had been disbursed, the best evidence of their payment would have been the books of account.

Irrespective of the rights of persons having contract or other relations with the company the financial books should exactly reflect the facts presented in the reports of corporate action contained in the minutes; otherwise the financial results shown in the accounts may be distorted and the periodical summaries may be inaccurate and misleading to the management and the stockholders.

Corporation Procedure

Since a corporation can be brought into existence only by a special or general act of the legislature, and its powers and activities are limited by the state laws, it is evident that statutory provisions governing corporate action must be strictly complied with. Otherwise, the very existence of the corporation may be questioned or the validity of its corporate acts threatened. It is incumbent upon those responsible for the legality and regularity of corporation procedure to see that the records of the corporation reveal conformity to all pertinent statutory requirements. This principle has

been well expressed by a well-known writer on corporate practice:[1]

"Although the writing and preservation of minutes by an unincorporated association or group holding periodical meetings finds abundant justification in the manifest advantages, the prevalence of the custom among corporations has an even greater justification. This is due to the peculiar character of the corporation as a special structure, whose existence, powers and acts are definitely authorized, specified, circumscribed and limited by the constitution or the legislative enactments of the state. As the recipient of what may be termed "special privileges" such as limited liability of members, the group of individuals operating through the corporate form of organization, has advantages not enjoyed by an individual or a group of individuals not so organized. On the other hand, there takes place on incorporation what amounts to a surrender of certain advantages or an acceptance of certain restrictions in respect to corporate activities. The freedom of action of an individual conducting a business is curtailed only by what the law denies. Apart from certain legal incidents to the relation itself, the scope of activities of members of a partnership is co-extensive with that of the sole proprietor. With some reservations, the distinction may be roughly made that an incorporated group can only do those things permitted, in the manner permitted, by law, whereas the individual or unincorporated group can do all of those things not prohibited by law. In other words, it is incumbent upon those identified with the corporation to trace the authority for each corporate act and to verify its legality and the correctness of the method of its performance. In effect, the burden of showing the regularity of its acts is upon the corporation and accordingly the preservation of evidence of regularity in the shape of carefully constructed complete minutes is a matter of prime importance."

It is the duty of the corporation's legal counsel to predetermine the legal soundness and correctness of procedure from the execution of the certificate of incorporation to the winding up of its affairs. It is the duty of the accountant and auditor to ascertain the financial results of corporate transactions and to verify the correctness of corporate records that affect the property, rights or interests of the corporation. The corporation accountant should, therefore, be well grounded in the fundamentals of corporate procedure.

[1] CORPORATE PRACTICE REVIEW, Volume 1, No. 11, "Drafting of Corporate Minutes," by William H. Crow.

SECTION TWO
CORPORATE ACTION

CHAPTER II

THE CORPORATION

Definition of Corporation

A private corporation has been defined as "a voluntary union of persons, joined together by written articles of association or incorporation under legislative authority, or by special statute on proper application to the legislature, to accomplish some pecuniary or ideal purpose authorized by the governing body of a state." Its leading features are that it has a continuous succession during the period described for its existence, and an individual name by which it may enter into contracts and sue and be sued, acting as a unit in respect to all matters within the scope of the purposes for which it is created, and a distinct existence or legal entity separate and distinct from the natural persons composing it. The essential idea of a corporation is that it has "the capacity to exist and act within the powers granted, as a legal entity, apart from the individual or individuals who constitute its members."[1]

The classic definition of a corporation is that given by Chief Justice Marshall in the Dartmouth College Case: "A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it was created. Among the most important are immortality, and, if the expression may be allowed, individuality, properties by which a perpetual succession of many persons are considered as the same, and may act as a single individual. They enable a corporation to manage its own affairs, and to hold property without the perplexing intricacies, the hazardous and endless necessity of perpetual conveyances for the purpose of transmitting it from hand to hand. It

[1] Thompson on Corporations (2nd ed.) § 2.

is chiefly for the purpose of clothing bodies of men in succession with these qualities and capacities that corporations were invented, and are in use. By these means, a perpetual succession of individuals is capable of acting for the promotion of the particular object, like one immortal being."

In the chart shown in Figure 1 are enumerated the salient characteristics of the corporation.

Classification of Corporations

Certain classifications of corporations commonly observed in the treatises are based on early English conditions and have no significance other than historical in a discussion of modern corporations of America. In the chart shown in Fig. 2 are enumerated the familiar classifications of corporations with definitions and comments. The first two groups of this enumeration of classifications, that is, aggregate and sole, and Ecclesiastical and Lay are not now common among American institutions, although attempts were made to recognize them in early cases.

Corporation Sole

Although the legislature has the power to create a corporation with power vested in an individual and his successors, the mere fact that all of the stock of a corporation is acquired by one person does not result in establishing a corporation sole. It was not contemplated by the corporation laws that the association could assume such a character.

Ecclesiastical Corporations

As there is no established church in the United States, there are no ecclesiastical corporations in this country. The character of the so-called religious corporations, provision for the creation of which is made in the statutes of most states, is purely civil, and differs from that of ordinary business corporations only in respect to their purposes.

Eleemosynary Corporations

Eleemosynary corporations are those corporations created for charitable purposes and the members thereof derive no profit from their operations. Examples of this class of corporations are hospitals, endowed libraries, and colleges. The test of whether a corporation is of this type

1. Association is voluntary
2. Created by legislative authority
3. Rights and powers defined in written articles
4. Definite pecuniary or ideal purpose
5. Continuous succession during the period prescribed for existence
6. Individual name under which it does business, enters into contracts, sues or is sued
7. Separate legal entity distinct from natural persons composing it
8. Liability of members limited to amounts subscribed for when fully paid. (Except in California and Minnesota.)
9. Corporation not affected by insanity or bankruptcy of stockholders
10. Corporation not terminated by death of stockholder
11. Directors, officers and agents can bind corporation only to extent defined by law. Stockholders cannot bind corporation
12. Transferability of shares owned by stockholder
13. Corporation can sue or be sued by a stockholder
14. Profits must be divided in proportion to stockholdings
15. Dividends must be paid out of profits, not capital

Fig. 1: Salient Characteristics of Corporation

is origin and purpose. If it is founded and principally supported by donations an educational institution which supplies gratuitous tuition may be classified as an eleemosynary corporation.

Civil Corporations

Civil corporations are those other than ecclesiastical and eleemosynary corporations, and they are distinguished from eleemosynary corporations by the fact that they are organized to produce some pecuniary or other benefit to their members.

Public Corporations

A public corporation, as defined in the Georgia statute is one having for its object the administration of a portion of the powers of government, delegated for the purpose. Conceived as exercising merely delegated authority, no contract relation can exist between the public corporation and the state, as is the case with private corporations. For a similar reason public corporations are not liable to taxation as the effect would be that the state would be taxing itself, the members of a public corporation having no personal ownership in its property. Public corporations are not limited to municipal corporations but embrace all corporations founded for public purposes where the whole interests belong to the government, as in the case of educational institutions exclusively controlled by the state.

Quasi Public Corporations

A class of corporations, comparable to public corporations only in respect to the effect of their operation upon the public interest, has been styled Quasi Public Corporations. The chief examples of this type of corporations are railroad companies, street railway companies, telegraph and telegraph and telephone companies, water companies, gas companies, electric light and power companies, canal companies. These corporations are usually referred to as public utility or public service corporations, and are private corporations which have received a franchise from the state to provide for a necessity or convenience of the general public incapable of being furnished through the ordinary channels of private competitive business and dependent for its exercise upon eminent domain or some agency of government.

AGGREGATE (consisting of more than one member) SOLE (consisting of one member only)	This classification recognized by Blackstone and Kent has little application to America as practically all corporations are aggregate
ECCLESIASTICAL (corporations formed to perpetuate the rights of the Church) LAY (other than ecclesiastical corporations)	The distinction indicated by this classification also has no significance in America since all religious corporations in the country are civil corporations
ELEEMOSYNARY (created for the administration of charitable trusts) CIVIL (Corporations other than ecclesiastical and eleemosynary)	The test of whether a corporation is eleemosynary is whether it is founded on donations and has a charitable object.
PUBLIC (created for political purposes with political powers to be exercised for the public good in the administration of civil government)	Cities, Villages, Counties (municipal corporations) Levee Districts Educational Institutions exclusively controlled by the state
QUASI PUBLIC (private corporations performing public duties; public service corporations)	Common Carriers Telephone & Telegraph Companies Gas & Electric Power & Light Companies
PRIVATE (created for the advantage of individuals)	Ordinary business corporations Banks & Trust Companies Insurance Companies Development companies (oil, mining, quarrying)
STOCK (having a capitalization divided into shares and which is authorized to distribute to the holders dividends or shares of the surplus profits)	
NON-STOCK (companies not organized for profit)	
DE JURE (companies that have completed all organization requirements)	
DE FACTO (company that has not completed its organization)	
DOMESTIC (so-called in the state of incorporation)	
FOREIGN (so-called in states other than state of incorporation)	

Fig. 2: Classification of Corporations

Private Corporations

Private corporations are those which are created for the immediate benefit and advantage of the shareholders. The great majority of corporations comprise this type. The corporations known as public service corporations, enumerated in the preceding paragraph are embraced by this classification, and most of the corporations which are given special statutory classifications fall within the designation of private corporations.

Stock and Non-Stock Corporations

A stock corporation (including joint stock corporation) is a corporation having a capital stock divided into shares and which is authorized by law to distribute to the holders thereof dividends or shares of the surplus profits of the corporation. A non-stock corporation is a corporation from which the members are not entitled to draw any profits, and the so-called "Certificates of Stock" issued to members are merely certificates of membership.

Examples of stock corporations are the modern business corporations, such as trading, banking and railroad companies. Examples of non-stock corporations are religious corporations, mutual insurance companies and the like.

Statutory Classifications

The statutes of the various states generally classify corporations according to their character or purpose and the test as to which of such classifications applies to a particular corporation is the purposes stated in the charter and the powers therein granted. This test is conclusive despite the recital in the charter that the company is formed under a statute providing for the organization of corporations of another class. The more common statutory classifications are trading, mercantile business, manufacturing, transportation, moneyed, banking, public utility, insurance, mining, religious, charitable, benevolent, internal improvement and industrial pursuits corporations and building and loan corporations.

The Partnership

A partnership is an association of two or more persons based upon an agreement, express or implied, to carry on

1. A contract of partnership, requiring no statutory formalities, as in the case of incorporation and which may be implied from the acts of the parties.
2. A partner cannot sue or be sued by the partnership.
3. Each partner can bind the partnership irrespective of the consent of the other partner.
4. The law makes every partner jointly and severally liable for the debts of the partnership. This means that firm creditors become his individual creditors also and as such can sue him personally.
5. Even after the partner has retired from the firm he does not free himself from liability on previously incurred firm debts.
6. Unless he gives actual notice of his retirement to all persons and companies from whom his firm purchased on credit, and to everyone else (serving notice to the world) through the medium of the newspaper, a partner can also be held liable for subsequent debts of the partnership.
7. Should an individual partner become bankrupt and later receive his discharge from the court he is still liable for firm debts.
8. If a firm becomes bankrupt each individual partner is also placed in bankruptcy personally.
9. A partner in a manufacturing or mercantile concern (even though it is not in the partnership agreement) has apparent authority as far as outsiders are concerned to buy and sell goods, borrow money or give negotiable paper in the firm name and the other partners are held liable on such contracts.

   These citations though brief are sufficient to afford some idea of the various liabilities that the ordinary partner assumes. These disadvantages of the partnership form of business are therefore obvious.

10. Methods of dissolution by:
    a. Withdrawal of a partner
    b. Bankruptcy of a partner (unless otherwise agreed)
    c. Death of a partner (unless otherwise agreed)

Fig. 3: Salient Characteristics of Partnership

business for their common benefit as co-owners, and to share in the profits, each partner acting as a principal in his own behalf and as agent for his co-partner. The principal characteristics of partnership are enumerated in Figure 3. The advantages of the corporation over the partnership form of organization can be noted by comparing their respective characteristics as shown in Figures 1 and 3.

Limited Partnership

In a few states only, statutes have been enacted authorizing the formation of what are called limited partnerships. A limited partnership is a partnership in which at least one general partner is liable personally for obligations uncollectible from the partnership, but the liability of one or more special partners is limited to the amount of capital contributed.

Joint Stock Companies

In some states the laws permit formation of partnerships in which the interests of persons contributing capital to the enterprise are represented by shares.

Such forms of organization, more common in England than in this country, are called Joint Stock Companies. The feature of transferable shares is like the stock ownership of the corporation, but the limited liability of stockholders in the corporation does not, in this country, ordinarily exist in the case of joint stock companies.

Another similarity to the corporation is observed in the fact that the existence of the joint stock company is not terminated by the death of a share holder. Unlike the corporation, however, the Joint Stock Company does not come into existence by charter authorization by the state, but as in the case of the partnership is formed by agreement of shareholders.

The Massachusetts Trust

The use of the express trust as a form of business organization sometimes called "voluntary association" or "common law trust" had its origin in Massachusetts, where prior to 1912 there existed no statutes authorizing the organization of real estate companies. By conveying the real estate to a trustee who executed a declaration of trust in favor of the grantors as beneficiaries, whose equitable inter-

1. Limited in duration only by statutory regulations based on the rule against perpetuities, the express trust is comparable to a corporation that has a charter of limited duration, thus ensuring continuity of existence irrespective of the identity of share or beneficial ownerships.
2. Ownership interests are transferable.
3. Beneficial owners enjoy limited liability except in states that hold such trusts to be partnerships.
4. Trustees can act without need of corporation statute or charter restrictions.
5. Uninterrupted management by the Trustees serves to promote stability of policies and better results than can be obtained by a succession of directors.
6. Legal proceedings can be brought by or against the Express Trust, as readily as in the case of the corporation.
7. Owners of beneficial interests may resort to an Equitable action for an accounting by the Trustees.
8. Except for impositions by some states of the same exactions laid upon corporations and requirements of filing and recording of the declaration of trust, the business of the trust can be conducted in most states with the same freedom as that enjoyed by an individual or a partnership.
9. The express trust may be expeditiously dissolved by agreement.

Fig. 4: Salient Characteristics of the Massachusetts Trust

ests were represented by transferable certificates, a very satisfactory business device for handling real estate was perfected. Profits were distributed pro rata to certificate holders, who were similar to stockholders in respect to the nature of their ownership. Clauses were inserted limiting the liability of trustees and beneficiaries. Since the trust organization was not chartered by the state, it was not considered liable to corporation franchise taxes or other corporate exactions. In certain states, however, such express trusts have been taxed under the corporation statutes, and in view of the still unsettled and diverse legal aspects, especial care should be taken, under guidance of competent counsel before adopting this form of enterprise. An enumeration of the salient characteristics of the express trust is presented in Figure 4.

Choice of Form of Organization

In discussing the points of differentiation between the proprietorship, the partnership and the corporation, authors sometimes attempt to enumerate these points under the captions "advantages of corporate form" "disadvantages of partnership" "disadvantages of corporate form" "disadvantages of sole proprietorship". It would seem the better plan to list the principal characteristics of the respective forms of organization (as in Figures 1 and 3) and to allow the reader to make his own contrasts. The truth is that favorable elements under one set of circumstances become unfavorable under different conditions. The arguments pro and con vary with the facts in each specific case. In the great majority of cases the corporate form has been deemed preferable; witness the increasing number of incorporations; and this very preponderance of choice may mislead the student. Many important enterprises, however, including large private banking and financial houses, are with the approval of competent counsel, conducted under the partnership or proprietorship form because deemed most advantageous for those particular enterprises. The rules of the New York Stock Exchange bar corporations from membership, for the obvious reason that it considers that full responsibility should be assumed by individuals identified with its transactions.

CHAPTER III

ORGANIZATION—THE CHARTER

Incorporation

The procedure of incorporation is prescribed by the laws of the various states. At first charters were granted by special acts of the legislature which conferred on persons designated in these acts and their successors a special franchise for operating under the corporate form. Infrequently such charters are still granted, although the constitutions of most states contain provisions expressly forbidding incorporation by special act, as violating the principle of equality. Each state now has a general act which lays down the conditions of incorporation and invests a designated officer of the state with authority to approve applications, and which designates how the charter shall be filed and recorded. When all the statutory conditions are complied with the projectors of the corporation have the right to have the charter issued or to have it accepted and filed by the designated officer (usually the Secretary of State). Where the application or the form of a proposed charter is clearly defective, the designated state officer is justified in refusing to accept it until the defect has been eliminated. Naturally some close points arise, and the functions of the inspecting and filing officer, from being strictly administrative, become quasi-judicial in some instances, where interpretations of language or nice questions of compliance are involved.

Variations of Organization Procedure

The details of the incorporating procedures in the various states, however, show many minor variations. These variations are observed even in groups of states whose organization procedures are patterned upon common models. These dissimilarities make the wholesale use of standard forms of charters, by-laws and minutes dangerous and untenable and even model forms set up as safe for use in a given state should not be relied upon as affording sufficient assurance of legal correctness. If model forms are taken as guides, their strict compliance with statutory provisions should be carefully verified. A comparison of important

statutory organization requirements in the various states is set forth in a table in Section IX.

The Charter

The instrument embodying the specific authorization by the state for the incorporators as a corporate body to carry out the purposes designated therein is variously termed according to the state of organization, the charter, certificate of incorporation and the articles of association. The charter defines the facts, conditions, powers, limitations and scope of activities of the corporation. It must conform to the constitution and the statutes of the state and together with them it constitutes the state's legal regulations for the corporate organization.

The contents of the charter are, as to the general nature of the subject matter, prescribed by state laws. Within the confines of these limitations and in conformity to constitutional and legislative provisions the applicants for the charter may exercise the choice of the specific subject matter appropriate to the enterprise.

Charter forms prescribed by the various states, although showing a general similarity as to essential contents, reveal considerable divergence in order of items and in minor particulars. The forms prescribed by some states differ in respect to the language used while others present real differences in significance of the information called for.

The information required to be stated in the Certificate of Incorporation includes:

1. Name of corporation.
2. Location of principal place of business.
3. Objects and general nature of corporation.
4. Duration of corporation.
5. Provisions pertaining to directors and officers.
6. Provisions pertaining to stock.
7. Names and addresses of incorporators and subscribers.
8. Miscellaneous provisions such as designation of resident agent.

Simple charter forms of industrial corporations are shown in Section V.

Name of Corporation

The first item required to be set forth in the charter is the name of the corporation. If the name is not unacceptable for any reason, it will become the identifying title of

POINTS TO CONSIDER IN CHOOSING STATE OF INCORPORATION

1. Other things being equal, it is advisable to incorporate in the state where the corporation expects to own property and transact business.
2. Compare the relative amounts of initial and annual franchise taxes and taxation of stock and income from stock, taxation on transfer and inheritance of stock in the states under consideration.
3. Is the name desired available in each of the jurisdictions?
4. Can more comprehensive purposes be secured in one state than in others?
5. Are the statutory provisions of one state respecting preferred stock classifications or bond issues more favorable to the plans of the projectors than are such statutory provisions of other states?
6. Are the statutory regulations governing payment of capital in goods and services in one state more suitable to the wishes of incorporators than are such regulations in the other states?
7. Are the laws of the states under consideration equally favorable in respect to stockholders' liability, right of stockholders or members of the public to inspect books and records, keeping records within the state, holding of meetings within the state and requirements that a percentage of the capital stock has been subscribed for ?
8. Examine the general corporation acts, business laws and specific regulations in the states under consideration pertaining to the business in question in order to determine which would afford the greatest advantage or sense of security.
9. Examine the tabulation of comparative incorporating provisions of the principal incorporating statutes in Section IX.
10. Compare the requirements necessary to amend the charter.
11. Consider character of annual reports necessary to be filed.

Fig. 5: Choice of State of Incorporation

the new company dedicated to its exclusive use within the state. The name must accord with express statutory requirements. In some states, the word "corporation" must be used or "The" must be prefixed if the word "company" appears in the name. In a number of states the use of the word "company" is prohibited unless followed by the word "incorporated" or "inc." As bank, insurance and finance companies are usually organized under acts other than the Business Corporations Acts, the use of the words Bank, Trust and Finance by business companies are often prohibited. The chief ground of rejection; *i.e.*, conflict with a name already in use by an existing corporation, either a domestic or a foreign corporation[1] licensed to do business in the state, is not always the subject of statutory prohibition but has its justification in the common law right to an exclusive trade name. Although at the outset the name simply serves as an indispensable medium of identification, after the corporation has, by continued advertising and sales effort, built up a trade reputation, the right to the exclusive use of the name usually becomes very valuable. This right often constitutes an important part of the asset designated "good will," especially when the corporate name is consistently associated with the products handled by the corporation. In recognition of the principle that it would be inequitable to grant to a new corporation the privilege of using the same name or one so similar to one previously authorized for corporate use in the state, that the public would likely mistake the identity of the two corporations and of their merchandise, product or service, to the disadvantage of the concern previously incorporated and of its consumers, Secretaries of State must refuse to approve the use of the conflicting name by the new corporation under such circumstances.

In order to avoid delay and be assured that this essential item of the charter will be approved when the charter is submitted, it is customary to submit the name desired to the Secretary of State in advance, and to ask that the name be reserved for a short period until the charter is forwarded. This is permissible under the practice followed in most states. As a further precaution against delay unless the name is unusual, so that conflict is unlikely, additional names are sometimes submitted in order of preference with the understanding that reservation be made of the first name enumerated on the list that is available. In some states a

[1] Authorization of foreign corporations to do business is permitted in some states even though the name conflicts with that of a domestic corporation.

small charge is made for searching the records for each name after the first one passed upon.

Law Governing Right to Corporate Name

It is important to note that it is no defense to an action by a complaining corporation that the Secretary of State acquiesced in the choice of defendant's name,[1] or that the state itself might in any way allow the defendant to choose an infringing name so as to damage the plaintiff despite the sovereignty of the state.[2] Many new corporations which have begun business with a prosperous outlook have been brought to a halt by a court order because of an initial improvident choice of a name. Obviously, to change the corporate name after a clientele has grown to know it as standing for a certain product and quality usually involves serious consequences to the corporation in question, if indeed it does not necessitate a complete fresh start. The statutory proceedings in some states for change of name involving amendment of the charter are quite troublesome, so that it is sometimes simpler to form a new corporation.

There have been various reasons advanced by the courts for granting injunctions or restraining orders against piratical use of names. Foremost among them is the proposition that the complaining corporation is being irreparably damaged by having business diverted by the newcomer in question and it naturally follows that the public at large is being harmed and will be the ultimate sufferer because of the confusion of the names and the quality of the products of the respective corporations if the relief asked is not granted. In a suit of this type not only are the usual equitable defenses (or considerations of common justice) applicable but oftentimes the same defenses may be raised that are set up by a defendant corporation where a plaintiff seeks an injunction for infringement of his trademark, these defenses being transplanted, so to speak, into this field. In such case, it is a good defense that the plaintiff has adopted a name in the public domain or that the name is descriptive or geographical or if the plaintiff has but recently entered the business field, that there have not been sufficient uses or use of the name to establish a secondary meaning in the mind of the public.[3] Whether relief is granted on the theory of protecting a trade name to

[1] Pansy Waist Co. *v.* Pansy Dress Co., 203 A. D. 585, 196 N. Y. Supp. 825.
[2] Peck Brothers Co. *v.* Peck Brothers Co., 113 Fed. 291, 62 L. R. A. 81.
[3] Blackwell's Dunham Tobacco Co. *v.* American Tobacco Co., (N. Car.) 59 S. E. 123.

prevent unfair competition, to protect the public or to protect the plaintiff, the general trend of the law appears to show that the actual reason for the granting of the relief by the courts is the interference with the intangible property right on the part of the plaintiff corporation to do business uninterfered with, and that the disturbance of this part of its assets is really a species of unfair competition. Whether the defendant in a particular case has interfered with the plaintiff is simply a question of fact and each case stands upon its own facts. As the law now stands, therefore, a fair test of whether a corporation ought to be stopped in its use of a certain name in a given case is as follows: Does the sum total of all of the evidence in the case show that the defendant corporation, while competing with the plaintiff's corporation, by misuse of the plaintiff's name or by the appropriation of a name similar to the plaintiff's, has injured either the plaintiff's right to do business or its good will, making due and reasonable allowance for fair and wholesome competition? In the answer to this question, as the law now stands, the decision appears to lie.[4]

Purposes of Incorporation

The second essential section of the charter is usually what is commonly designated the "purposes" of the corporation. This part of the charter comprises the definition of powers granted by the state to the corporation and these must be such as the law of the state permits. The rule formerly prevalent, that corporations would be chartered for one purpose only, still exists in some states, but in the great majority of states more than one specific business may be included in the purposes enumerated. A number of supplementary businesses, contributing to the effective conduct of the principal business are usually permitted but the inclusion among such auxiliary purposes of powers restricted to banking, insurance and public service corporations, which are the subjects of special incorporation statutes, is expressly prohibited for corporations of that type. It should be noted that even if some purpose not permitted by the corporation law of the state should be overlooked by the Secretary of State, and the charter approved, it would as to the unauthorized purpose be ineffective although it will be held to be valid in all other respects.

The importance of clear, careful and adequate enumeration of purposes is emphasized by Judge Dill in his authoritative work on New Jersey Corporations: "This being the

[4] See Buffalo Typewriter Exchange, Inc. *v.* McGarl, 240 N. Y. 113, 147 N. E. 546.

REMINDER LIST FOR PROCURING NEW CHARTER

1. Ascertain availability of name desired, not only for the state of incorporation but in all those other states where the corporation expects to qualify to do business.

2. Visualize all of the possible activities of the proposed corporation, ultimate as well as imminent, and enumerate all powers necessary to include in the charter, in order to be prepared to carry on such business in the future.

3. Give thorough consideration to the plan of capitalization. After payment of capital, the procedure for amendment of charter is often troublesome and the time element may be extremely inconvenient, if the authorized capital is increased or reduced.

4. Consider whether a provision authorizing cumulative voting should be inserted in the certificate of incorporation, provided this method of voting may be thus established by the terms of a covering state statute.

5. If permitted by the state law, determine advisability of inserting a provision in the charter, authorizing the directors to alter, amend and repeal by-laws, mortgage the corporation's property without the consent of stockholders, or of limiting the powers of directors to create or pay debts or of authorizing the corporation to own securities of other corporations.

Fig. 6: Points in Procuring New Charter

important part of the certificate of incorporation, great care should be taken that the objects and purposes of the company are stated in the fullest and clearest manner possible, because the company cannot undertake any business not authorized by the charter and not even the fullest sanction given by the shareholders will make valid any act which is outside the powers of the company. Directors undertaking any such business may become personally liable for loss and great inconvenience follows from companies having too limited powers....."

The balance of disadvantage decidedly attaches to too narrowly defined objects. It is easier to compress, so to speak, the business of the company within the limits of large objects and broad powers than to develop business by extension in the face of narrowly defined objects. It is better to give latitude to the objects and powers as contained in the certificate of incorporation and to limit the powers of directors by the by-laws, than to run the risk of the subsequent insertion in the by-laws or in the minutes of the Board of Directors of a provision intended to meet some pressing requirements of the business, which provision may be found absolutely worthless because of variation from the terms of the certificate of incorporation. It is customary to insert general words such as "In general, to carry on any other business, whether manufacturing or otherwise," but it must be understood that the courts limit such words to operations of a nature similar to the business previously mentioned and will not include any wholly fresh business.

In recognition of the principle expressed by Judge Dill, attorneys in preparing charters customarily insert all the powers which a study of the corporation's probable future business and financial program would indicate to be of possible use or benefit. A painstaking survey of present and ultimate conditions and requirements at the time the charter is drafted may eliminate the necessity of costly and troublesome proceedings to amend the charter, later on, or forestall the consequences of *ultra vires* acts.

Ultra Vires Acts

If a corporation performs any act not expressly permitted by the law of the state or which is not specifically or by implication authorized in its charter, such act is termed in law *ultra-vires* (beyond law). The consequences of such a charter violation, if the public interests are affected, may be forfeiture of the charter, upon institution of statutory proceedings by the state. The state, however, does not concern itself with issues involving private interests only, so

that in respect to the ordinary transactions with stockholders and creditors no action by the state will be taken against the corporation.

Although the decisions relating to *ultra-vires* are characterized by some confusion as well as much conflict, by the weight of authority, *ultra-vires* contracts may be enforced against the corporation if the other party has rendered substantial performance. The doctrine of most of these cases is based on the rule of estoppel, which is generally held to be inapplicable to purely executory contracts, one reason being stated that where neither party has acted upon the contract, the only injustice caused by a refusal to enforce it is the loss to the parties of prospective profits, and this is too slight a consideration to weigh against the reason of public policy for declaring it void and unenforceable. The courts in many of the states hold that an *ultra-vires* contract is not illegal and void because of want of authority. If not otherwise subject to attack, the courts may grant right of action.

The doctrine of *ultra-vires* applied to private corporations is becoming less formidable with the increasing scope of powers authorized to be inserted in charters and the more liberal trend of decisions of the state courts. However, the directors and officers of a corporation are liable to stockholders, or to the corporation for *ultra-vires* acts, and it is advisable for those responsible for the legal position of the corporation to see to it, first that the purposes clauses are sufficiently comprehensive, and second, that the acts of the company do not transcend their limitations.

Inherent Corporate Powers

Irrespective of their inclusion in the certificate of incorporation, certain powers are inherent in every corporation. These powers must necessarily accompany incorporation or the corporate organization would be ineffective. Although existing under the common law, these inherent powers have been embodied in the corporation laws of most states. Hereunder is reproduced this section of the Corporation Act of the State of New Jersey:

"I. Powers of corporation.

Every corporation shall have power:

I. To have succession, by its corporate name, for the period limited in its charter or certificate of incorporation, and when no period is limited, perpetually;

II. To sue and be sued in any court of law or equity;

III. To make and use a common seal, and alter the same at pleasure;

IV. To hold, purchase and convey such real and personal estate as the purposes of the corporation shall require, and all other real estate which shall have been bona fide conveyed or mortgaged to the said corporation by way of security, or in satisfaction of debts, or purchased at sales upon judgment or decree obtained for such debts; and to mortgage any such real or personal estate with its franchises; the power to hold real and personal estate shall include the power to take the same by devise or bequest;

V. To appoint such officers and agents as the business of the corporation shall require, and to allow them suitable compensation;

VI. To make by-laws fixing and altering the number of its directors, and providing for the management of its property, the regulation and government of its affairs, and the transfer of its stock, with penalties for the breach thereof not exceeding twenty dollars;

VII. To wind up and dissolve itself, or to be wound up and dissolved in manner hereafter mentioned."

Distinguished from these inherent powers are those powers which are held to be implied from the express powers of the charter.

Capital Stock

The provisions of the corporation laws in the various states that prescribe the contents of the charter invariably require that the particulars and conditions of the authorized capital stock be stated in detail. Usually information is required to be inserted as to the amount of capital stock (a minimum amount is frequently prescribed), the number and par value of the shares of which it is to consist, or if the corporation is to issue shares without par value, the number of shares without par value. In some states, the statement is required of the amount of capital stock with which the corporation will begin business, a minimum amount being usually prescribed. If there is more than one class of stock created by the certificate of incorporation, a description must be given embracing the number of shares to be included in each class and all of the designations, preferences, privileges and voting powers or restrictions or qualifications of the shares of each class. Often in other sections of the corporation act than that dealing specifically with the charter are provisions covering stock. Among them is sometimes found a clause to the effect that subject to the desig-

POINTS TO CONSIDER IN REVIEWING THE CHARTER STATUS OF ESTABLISHED CORPORATION

1. How long a period will elapse before the charter expires, if the authorized duration is not perpetual? If the time of expiration is imminent should the corporation be reincorporated in the same state?
2. Has the corporation entered upon any phase of activity not expressly or impliedly authorized by its purposes?
3. Does the capital stock authorized in the charter, or the plan of classification thereof, answer the requirements, current or of the near future, of the financial program?
4. Is the plan of capitalization such that, while satisfactorily representing the respective ownerships, and stating the financial purposes of the corporation, it does not obtain maximum tax economies? Would a readjustment accomplish substantial tax savings while serving other purposes equally well?
5. If the corporation owns or is contemplating ownership of securities of other corporations, does the charter, if the state law so prescribes, authorize such ownership?
6. Does the charter contain limitations, originally inserted for prudential reasons, which the corporation has long since outgrown, such as restriction of the borrowing power or of salaries of officers to too low a level?
7. If sanctioned by a provision of the state law, permitting the corporation to insert in or omit from the charter such provisions as have been enumerated above, would the trouble and expense of an amendment of the charter be justified by the advantages to the corporation?
8. If the charter is insufficient in some important respect and its defects cannot be cured by an amendment, is it advisable to surrender the charter in that state, incorporate in another where the desired charter provisions can be obtained and continue to do business in the first state as a foreign corporation?

Fig. 7: Points for Review of Present Charter

nations, preferences, privileges and voting powers or restrictions or qualifications granted or imposed in respect to any class of shares, each share with or without par value shall be equal to every other share of the same class. In some states such special provisions authorize the creation of two or more kinds of stock and specify that such stock, whether of par or no par value may have full, limited, or no voting powers of such classes, with such designations, preferences, relative, participating, optional or other special right, qualifications, limitations or restrictions thereof as shall be stated and expressed in the certificate of incorporation.

Other stock provisions sometimes authorized by corporation acts to be expressed in the certificate of incorporation are:

(a) No stock with par value shall be created entitling the holders thereof to receive preferred dividends thereon in excess of eight per cent per annum.

(b) Any preferred or special stock may be made subject to redemption at the time or times and at such price, not less than par in the case of stock with par value, as may be specified in the charter, and not less than the value received therefor by the corporation in the case of stock without par value.

(c) The holders of preferred or special stocks shall be entitled to receive dividends at such rates, on such terms at such times as shall be stated in the certificate, payable in preference to or in such relation to the dividends payable on any other class or classes of stock as shall be so expressed, and such dividends may be made cumulative.

(d) The holders of such preferred or special stocks shall be entitled to such rights upon the dissolution of or any distribution of the assets of the corporation as shall be so expressed.

(e) In the case of preferred or special stocks entitled to limited preferential dividends and to a fixed amount upon dissolution or upon any distribution of the assets of the company the board of directors may be empowered by the certificate of incorporation, or an amendment thereof, to cause such stock to be issued in series with variations as to the rates of dividend payable thereon and as to the terms on which the same may be redeemed and as to the amount which shall be paid to the holders thereof in case of dissolution or of any distribution of the assets and as to the terms or amount of any sinking fund provided for the purchase or redemption thereof, but the stock of each such series of the same class shall in all other respects be equal.

(Upon the creation and issuance of any such series, the statutes sometimes provide that the designations, descriptions and terms thereof shall be set forth in a certificate made by the corporation under its seal and the hands of its president or a vice-president, or its secretary or an assistant secretary and acknowledged or proved as in the case of deeds of real estate and filed in the office of the Secretary of State.)

(f) A corporation which shall have issued any preferred or special stock which is subject to redemption, as provided in the certificate of incorporation or an amendment thereof, shall redeem such stock at not exceeding the price at which the same is subject to redemption. Upon the redemption of any stock with par value, not more than the par value thereof shall be charged against or paid out of the capital of the corporation, and, in case the same be without par value not more than the amount of capital received upon the issuance of such stock shall be charged against or paid out of the capital of the corporation.

(g) Any stock so redeemed shall be retired by resolution of the board of directors of the corporation and shall not be re-issued and the authorized amount of stock of the class redeemed shall be deemed to be reduced and retired. (In every such case the corporation shall either prior to or within sixty days from the date of such redemption execute and file with the Secretary of State a certificate under its seal and the hands of its president or a vice-president and its secretary or an assistant secretary and acknowledged or proved as in deeds of real estate, setting forth with particularity the kind and number of shares of the stock so redeemed or to be redeemed and the date upon which such redemption is to take place or has taken place; and thereupon such certificate having been filed as aforesaid such retirement and the resultant decrease of capital stock made or to be made shall become effective on the date of redemption so specified in said certificate, without the necessity of any other proceedings under any other section of the corporation act. Such certificate shall also be published for three weeks successively, at least once each week in a newspaper published in the county in which the principal office of the corporation is located; the first publication to be made within fifteen days after the filing of such certificate.)

(h) Any preferred or special stock may be made convertible into stock of any other class or classes upon such terms and conditions as shall be expressed in the certificate of incorporation or an amendment thereof, provided that stock without par value shall not be made convertible into

stock with par value, unless the stated capital received upon the issuance of such stock without par value shall be at least equal to the par value of the stock into which the same is convertible.

(i) Every corporation organized under the general corporation act shall have power to create optional rights to purchase and subscribe to stock of any class or classes on such terms and at such price and in such manner and at such time or times as shall be expressed in the certificate of incorporation or an amendment thereof, and may issue such warrants or other evidence of such rights, but nothing herein contained shall authorize the issuance of stock at par value for less than the par value thereof.

Common and Preferred Stock.

The statutory provisions enumerated refer to instances where more than one class of stock is to be issued. If only common stock is authorized the mere statement in the charter of the amount of capital stock, the number of shares and the amount of par value of each will be sufficient. The fact that no preferred stock is authorized and that the common stock has no classifications or limitations will be assumed. The same presumption against restrictions applies when preferred or special stock is authorized. Except for the conditions expressly stated in the certificate to attach to the preferred, (as for example, in the payment of dividends at a certain rate) the rights of the preferred and common stockholders will be taken to be equal.[1] The mere designation of stock as "preferred stock" does not make it such, but to determine its preference, if any, reference must be had to the statutes or contract creating it.[2] The stockholders preferred as to dividends are not entitled to be preferred in distribution of assets on dissolution unless the certificate of incorporation so provided.[3]

Where, under the statute the issuance of non-voting stock is not prohibited, common stock may be divided into voting and non-voting stock.[4] Criticism of the custom of using a non-voting class of common stock[5] has led to the adoption of stringent rules regarding shares of this kind by the Committee on Listing of the New York Stock Exchange and this type of common stock is falling into public disfavor. About one-third of the common shares marketed during 1925 were restricted as to voting rights.

[1] General Investment Co. *v.* Bethlehem Steel Corp., 88 N. J. Eq. 237.
[2] Elkins *v.* Camden & Atlantic R Co., 26 N. J , Eq. 233.
[3] Lloyd *v.* Penn. Elect. Vehicle Co., 75 N. J., 263.
[4] General Investment Co. *v.* Bethlehem Steel Corp., 88 N. J., Eq. 237.
[5] William Z. Ripley, "Main Street and Wall Street".

PRINCIPAL CLASSIFICATIONS OF COMMON AND PREFERRED STOCK

A. Common Stock Classifications:

- I. Voting Classifications
  - a. Voting Stock
  - b. Non-voting Stock
  - c. Restricted Voting Stock
- II. Par Value Classifications
  - a. Par Value Stock
  - b. No Par Value Stock

B. Preferred Stock Classifications:

- I. Voting Classifications
  - a. Voting Stock
    1. equal rights with common
    2. right to elect a specified representation on the Board
    3. right to exercise sole voting privilege, under certain conditions as upon non-payment of dividends for a certain period
  - b. Non-Voting
  - c. Limited Voting — Rights to vote upon certain propositions only, affecting the interests of that class of preferred stockholders, as in cases of
    1. propositions to change voting power of any class
    2. sale of corporation's property or franchises
    3. mortgage of property
    4. authorization of issuance of stock having priority over preferred
- II. Par Value Classifications
  - a. Par Value Stock
  - b. No Par Value Stock
- III. Income Classifications
  - a. Series Stock
    - 1st Preferred Stock
    - 2nd Preferred Stock
    - 3rd Preferred Stock

    Right of later series to receive dividends after earlier series has been paid
  - b. Manager's Shares — a preferred stock calling for a larger share in the earnings, as an incentive to the management, than that paid to other stockholders
  - c. Participating — right to share with common stock after payment of preferred dividend and common dividend
  - d. Non-participating
  - e. Cumulative — Right to receive back dividends when sufficient profits are available
  - f. Non-Cumulative — Right to be paid dividends only when earned in the current period
- IV. Assets Classifications
  - a. Preferred as to assets (On dissolution)
  - b. Non-preferred as to assets
  - c. Preferred only as to assets up to par or a fixed percentage above par
- V. Security Classifications
  - a. unfunded — Without provision for reserve fund
  - b. funded — Creation of "dividends equalization reserve" or "surplus capital reserve" account to meet dividend requirements on preferred stock
- VI. Retirement Classifications
  - a. Redeemable
  - b. Non-redeemable
  - c. Convertible

Fig. 8: Classification of Common and Preferred Stock

Term of Existence

The period of duration is always required by the covering statute to be stated in the charter. The language to be employed and the time vary considerably. A common form states that the term for which said corporation is to exist is ..... years, from and after the date of its incorporation. The date from which the term is to run is often specified, however, the form reading: The time of the commencement of this corporation shall be ..... and its termination shall be ..... Statutory provisions authorize various periods of duration, such as 20, 30, 40, 50, 99 and perpetual. A tabulation of statutory provisions regulating terms of corporate existence is presented in Section IX. Ordinarily the maximum possible term is chosen as the period of existence, in order to avoid the necessity of reincorporation upon expiration of the term. If it is the wish of the sponsors of the corporation to wind it up at the date of expiration of its charter term, it is only necessary to distribute the assets after such expiration; the charter dies, becomes non-existent and its sponsors have the right to receive their share of the assets.

Location

The requirements of the statutes in the various states vary considerably as to the information necessary to be set forth in the charter, as to the location of principal and branch offices of the corporation. In some instances, the location of the principal office in the state must be stated, in others the locations of a principal office without the state must be stated also. A few states require the statement of the post office address of the corporation. A number of states specify that information be given as to the place where the principal business of the corporation is to be transacted. In at least one instance (Wyoming), if the company is formed for the purpose of carrying on any part of its business in any place outside of the state, a statement must be inserted that "the said business is also formed for the purpose of carrying on part of its business outside of the state of Wyoming, to wit, in the city of....., county of.....and state of.....,and elsewhere in the United States as the trustees (directors) of our said company may, by resolution or otherwise direct." Another form of statement required in a few states is "A business office may be located at.....,where meetings of the directors and stockholders may be held for

the transaction of business." The provisions regulating principal and branch offices of corporations have been tabulated in a brief digest in Section IX.

Incorporators and Subscribers

In most states the names of the incorporators with their post office addresses and with the number and par value of shares subscribed by each are required to be inserted in the certificate of incorporation. In some states a statement of qualifications of incorporators must be included, such as the fact that one-third of the incorporators are residents of the state. An enumeration of incorporators' qualifications is presented in Section IX.

Directors and Officers

No provision is made in some states by the statutes dealing with the charter for listing the names or addresses of directors. In a few states, however, the charter is required to state the names and post office addresses of the first Board of Directors, who subject to the provisions of the certificate of incorporation and the by-laws, shall hold office for the first year of the corporation's existence or until their successors are elected or qualified. Instead of the period prescribed for management by the designated directors being fixed "for the first year," the statutes in some states limit the time to three months, six months, to a specified date, or until the first annual meeting. In those jurisdictions where the names of the first directors are not required to be inserted in the certificate of incorporation, the identity of the directors may not be finally determined until the time of their election by the incorporators. In a number of states the names of the first officers are also required to be stated in the charter. A usual provision of this type directs the inclusion of a statement that the affairs of the corporation are to be conducted by (names of officers) who shall serve until the next general election. In a number of instances the number (but not the names) of directors must be included. The statutory requirements as to number and qualifications of directors are discussed in Section IX.

If the adoption of by-laws is to be delegated to directors, a clause is inserted to the effect that the directors of the company shall have the exclusive power to make such prudential by-laws as they may deem proper for the management and disposition of the stock and business affairs of the company, not inconsistent with the laws of the state

prescribing the duties of officers and servants that may be employed, for the appointment of all officers and for carrying on all kinds of business within the purposes and objects of the company.

In some instances the quorum of the board necessary to elect officers or transact business is defined in the charter, although usually this is left to the by-laws.

Provisions as to Property and Indebtedness

By the statutes of some states it is necessary to state in the charter the highest amount of indebtedness to which the corporation shall at any time subject itself. In some instances authorization is given to insert a clause to the effect that no stockholder shall be liable for the debts of the corporation in any amount greater than his unpaid subscriptions, or a clause to the effect that the private property of the stockholders shall not be liable for the corporation's obligations. If the private property is to be subject to corporate indebtedness, the fact and extent of such liability must be specified. In some New England states the statute requires a statement of the business and property to be taken over by the corporation and the value thereof, showing the value of the tangible and intangible property. If a West Virginia corporation desires to hold more real estate than ten thousand acres the number of acres must be specified.

Resident Agent

The purpose of statutory provisions requiring the insertion of the name of a resident agent is to assure that some person within the jurisdiction will be designated to receive service of papers. Domestic corporations proposing to carry on business within the state of incorporation would not logically be included, because their officers and agents could always be found at the company's principal office. In recognition of this fact the statutes sometimes limit the necessity for such designation to corporations not proposing to do business within the state. The function of the designated agent should not be confused with that of an agent appointed to collect stock subscriptions. In a few states (as in Alabama) the law requires a statement in the charter that a person named, residing in a stated city and county is designated by the incorporators as commissioner of the corporation to receive subscriptions of the capital stock. The designation of a resident agent by a domestic corporation for service of process is required for the same reason

that such designations are invariably required of foreign corporations applying to do business within the state.

Miscellaneous Provisions

In a few New England states the time and place of the first meeting of incorporators is required to be stated in the certificate of incorporation. Cumulative voting is not permissible under the laws of some states unless expressly authorized by the certificate of incorporation. Provisions respecting the keeping of statutory books and records and the corporate seal are in some states included in the certificate of incorporation instead of in the by-laws as is usually the case.

CHAPTER IV

THE BY-LAWS

Definition

The by-laws of a corporation are the rules established by the corporation for the regulation of its internal affairs. The state statutes, the charter and the by-laws together constitute the complete system of governing regulations. Of these the statutes are first in order of controlling effect, then the charter and finally the by-laws.

As the by-laws are set up by the corporation itself, it has the power to change them, pursuant to the provisions and in accordance with the procedure invariably prescribed in the by-laws themselves. The provisions of the charter can only be amended by following the procedure required by the corporation laws of the state. It is true that the by-laws often contain recitals or adaptations from the statutes or the charter, for the convenient reminder of the officers, directors and stockholders and as an assurance against violation of statutory provisions through over-sight. Such provisions of course retain their statutory character and cannot be changed in a manner to conflict with state laws.

In some instances for the same reason as for inclusion of statutory matter, where the stock of a corporation is to be listed, the by-laws also contain a statement of the regulations of the exchange which affect the transfer or issuance of stock. Any change in the by-laws of a nature that would lead to the violation of stock exchange restrictions, would mean the defeat of the very object of their adoption which was to provide assurance that the correct procedure would not be lost sight of amidst the maze of details of stock transfer work.

In general, however, the by-laws contain merely those rules of self government consistent with state laws which control the members of the corporation in the administration and conduct of internal corporate affairs. It is fundamental that by-law provisions must not violate public policy or conflict with the law of the land as represented by the Federal or state constitutions and the rules laid down by the courts.

Distinction Between By-Laws and Resolutions

By-laws are the permanent rules of internal regulation, subject to change only by the formal procedure specified in

the by-laws themselves. A by-law may be changed or a new by-law may be added, by the adoption of a resolution in the manner prescribed for the adoption of a by-law. A resolution, however, even if adopted with the formality required for a by-law, would not constitute a by-law unless it established an important rule of internal regulation. First, the nature of the subject matter, second, the appropriate procedure, and third the intention of the passers of the resolution, are the deciding factors as to its character. For example, a resolution passed with the two-thirds vote required in the case of by-laws, which without the knowledge or intent of the voters conflicts with a by-law of long standing, would not prevail over the established by-law. Various criteria have been submitted to distinguish a by-law from a resolution but these are futile, in the absence of the three essential conditions enumerated above.

Nature of By-Laws

A by-law, that is in itself unenforceable by the corporation against a stockholder because unreasonable, if incorporated in a contract between the stockholder and a third person does not necessarily make the contract invalid. For example, a stockholder may contract to perform certain acts in connection with his stock which the corporation could not compel him to do by virtue of a by-law provision. By-laws are distinguished from regulations established for the conduct of commercial affairs, such as terms of credit or delivery on approval, trading terms, or rules of common carriers or public service corporations. The public is compelled to take notice of reasonable business regulations imposed by the corporation but not of contents of by-laws which are not in express terms authorized by statute. Knowledge will only be imputed to members of the public when the by-law provisions are the subject of statutory regulation or are covered by the certificate of incorporation. Minor regulations affecting the business of the company or its corporate procedure such as the outlining of procedure in connection with the establishment of branch offices by the company or a resolution authorizing officers to engage outside accountants to make periodical audits are not ordinarily considered of the character of by-laws.

The duly adopted by-laws of the corporation are as binding on the corporation and its officers and directors as the provisions of the certificate of incorporation. Participation in the vote creating the by-laws or consent by a stockholder to an act done pursuant to a by-law is not essential, as by-laws which have been regularly adopted become the law of

the corporation for all stockholders. Unless the circumstances are such that it would be inadequate to apply the rule, as for example where portions of the by-laws are omitted from a set supplied to the stockholder as complete, a legal or irrebuttable presumption of notice of the existence of by-laws is ordinarily said to exist in respect to the stockholders of a corporation.

Power to Make By-Laws

The right of the corporation to make by-laws existed under the common law, and by the weight of authority the right is implied from the state's authorization to exist as a corporation. Usually the power to make by-laws is expressly bestowed by statute, and although the power ordinarily rests with the stockholders, if the statute directs that the authority to adopt by-laws shall be exercised by the board of directors, as in the state of Kentucky, such provision will control. The statutes in some states direct that the stockholders may adopt by-laws, but any corporation may in the certificate of incorporation or by resolution of its stockholders confer that power upon the directors and by-laws made by the directors under power so conferred may be altered or repealed by the stockholders. The New York Statute reads "Subject to the by-laws, if any, adopted by members of a corporation the directors may make necessary by-laws of a corporation." If the power is reserved to the stockholders by the state law such stockholders may validate any previously authorized action on the part of the board of directors in adopting by-laws, by ratifying such action.

Manner of Adoption

The adoption of by-laws requires no particular formality of procedure in the absence of specific covering provisions in the charter or statute. If however, the manner of adoption is indicated by the state law or by the certificate of incorporation, the prescribed procedure must be strictly followed. It has been held that by-laws need not be in writing or under seal; but where the statute directs that the seal be affixed, the omission of the seal at the time of recording in the official minute book will constitute the action a simple resolution and not a by-law. In the absence of any specified governing procedure, the adoption of by-laws does not require an express vote or even adoption at a meeting. It has been said that the existence of a by-law may be shown by proof of custom, or by acts of acquiescence of the members of the corporation, or by the uniform procedure of

the corporation. But the import of the cases is not so much that the custom may take the place of a by-law, but that it may be resorted to as evidence of the adoption of a by-law. A stockholder may impeach a by-law on the grounds of irregularity of manner of adoption when he did not participate in the adoption, but not if he did so participate. Regularity of adoption of a by-law will be presumed until proof is given to the contrary.

Validity of By-Laws

A by-law to be reasonable and valid must be fair to all stockholders or members alike and not discriminate against any stockholder or member or class of stockholders or members. If the effect of the operation of a by-law is to deny to a particular stockholder rights enjoyed by the other stockholders the by-law will be held to be invalid.

Although by-laws are held invalid where they operate to restrain trade unreasonably, some decisions qualify the rule by holding that although such regulations are legally unenforceable, if the members themselves comply with these by-laws, no right of interference exists by third persons.

By-Laws Conflicting With the Charter Powers

By-laws which are inconsistent with the provisions of the state laws, or certificate of incorporation, are invalid. The rule has been thus stated: "In so far as its by-laws are inconsistent with the object of the corporation, and the spirit and terms of its charter, or attempt to authorize the corporation to perform acts beyond its charter powers they are void, although adopted with the unanimous consent of the stockholders." If the enabling statute requires a provision of the charter to be inserted, a by-law attempting to modify such provision is invalid. If the statute or certificate of incorporation contains a provision that the board of directors shall be vested with the management of the corporation's business, the corporation cannot through its by-laws transfer such authority to an executive committee.

By-Laws Depriving Courts of Jurisdiction

The common law doctrine generally recognized in the United States and having the approval of the Supreme Court of the United States, is that parties may not contract to submit finally all future differences to arbitrators, thereby barring the litigation of such differences from the courts.

Considerable adverse discussion by American Judges and the virtual overthrow of the rule in England by the "Arbitration Act of Parliament," which has compelled the courts of that country to abandon the doctrine that "it is wrong or wicked to agree to stay away from the courts when disputes arise," has not yet resulted in changing the prevailing rule of law in this country. Some states, however, have adopted statutes which permit such arbitration agreements within prescribed limits. Since by-laws may be considered contracts, binding on the members or stockholders, the doctrine forbidding the ouster of jurisdiction of the courts has been extended to invalidate by-laws which attempt to require members to submit the adjustment of claims to the conclusive determination of non-legal tribunals. An exception has been made in a number of cases where the issue has arisen over the rights of members of benefit associations in respect to adjustment of claims under benefit certificates issued by such associations; also a preponderance of authority has sustained by-laws of associations which are not unreasonable or do not operate to defeat justice and which expressly require the exhausting of the remedies provided in the by-laws before the resort to legal procedure. The test seems to be whether the by-laws pre-empt for the tribunal or arbitrators the deciding of legal liability on the facts, which is generally forbidden, or whether they merely provide for the determination of facts as a condition precedent to the attaching of legal liability.

By-Laws Regulating Qualifications and Powers of Directors

By-laws may be enacted by the corporation defining the qualifications of directors, the manner of their election and the termination of their incumbency, provided such by-laws do not conflict with the express provisions of the general law or of the certificate of incorporation. By-law provisions have been held not unreasonable because they exclude from eligibility for directorship a director or stockholder in a corporation engaged in a similar line of business. Under a statute prescribing that a majority of the Board of Directors only can perform corporate acts the appointment of a director to fill a vacancy by less than a majority of the directors (constituting a corporate act) has been held invalid. By-laws consistent with statutory or charter provisions authorizing the Board of Directors to remove officers without assigning reasons for their removal have been held valid. Unless authorized by the provisions of the statutes, charter or by-laws, the directors have no power to remove one of their number and consequently

SUMMARY OF IMPORTANT CONSIDERATIONS RELATING TO BY-LAWS

1. The by-laws are the rules made by the corporation for its internal government, subject and subordinate to any covering provisions of the state laws and the certificate of incorporation.

2. By-laws must be reasonable, must affect all stockholders or members of a certain class alike, and must not impair existing rights of any stockholder or member.

3. The by-laws should be carefully drafted to suit the circumstances of the particular corporation with a view to future requirements, and not compiled by a hasty process of appropriation of parts of specimen forms.

4. By-laws of up-to-date corporations have careful definitions of responsibility of designated officers for accounts, for the custody of funds and securities and for the making of systematic internal and external checks and the rendering of periodical reports to the major authority. A provision for maintaining accurate and accordant records of transactions in the corporate activities books and the financial books is a comparatively recent but fundamentally sound regulation.

5. Subject to statute and charter provisions and the rules of the General Law, by-laws may and they customarily do contain regulations pertaining to stock, stockholders, directors, officers, accounts, dividends and conditions of amendment.

6. Subject to statutory provisions in a limited number of states and certain arguments in favor of notice to stockholders, when not legally compelled, by-laws must be amended or repealed by the body and in the manner by whom and by which adoption of the original by-laws was vested and enacted.

Fig. 9: Notable Points Relating to By-Laws

they are powerless to amend the by-laws in such a manner as to confer that authority upon them.

By-Laws Regulating Rights and Liabilities of Stockholders

Usually, pursuant to the General Corporation Acts of the various states, provisions regulating the amount of capital and the rights and liabilities of stockholders are set forth in the Certificate of Incorporation. If such regulations may legally be created in the by-laws, amendments of the by-laws affecting the capital or other attributes of the stock may be made by the corporation. Unless permitted by statute, however, or by the unanimous vote of the stockholders, any owner of common stock may object to the issuance of preferred stock on the ground that this would impair vested rights. A by-law adopted for the benefit of the corporation as, for example, the regulation of the amounts of subscription payments, may be waived by the corporation's acceptance of an adequate payment thereby binding the subscribers. By-laws imposing the forfeiture of shares for non-payment of assessments are invalid in the absence of an express provision in the certificate of incorporation or the general law. Those stockholders who assent to the adoption of such by-laws, however, will be estopped from asserting their invalidity providing the operation of such by-laws affects each class of stockholders equally. Unless the stockholder agrees thereto or the statute or the certificate of incorporation so directs, the stockholder cannot be assessed for more than the amount he agrees to pay for his stock.

By-Laws Regulating the Qualifications, Powers and Duties of Officers

The qualifications of officers may be prescribed by the by-laws in the absence of ruling provisions in the certificate of incorporation or the governing law. This includes the power to fix salaries. The stockholders may, by the enactment of a by-law, delegate authority to determine salaries to the Board of Directors. The word officers, under such circumstances, can not be extended to include the directors themselves, and such authority must be exercised reasonably. For example, the salary of an officer may not be reduced by more than one half because of personal animus; nor may the directors fix a disproportionate remuneration payable to themselves as officers. If the vote of a director to authorize payment to him of a salary is necessary to constitute a quorum such action will be invalid even though taken pursuant to a by-law adopted by statutory authorization.

By-Laws Regulating Corporate Meetings

By-laws may prescribe the time, place and method of calling and conducting meetings of stockholders, provided they are not repugnant to the state laws or certificate of incorporation. Such by-laws, however, cannot be employed to defeat the purpose of another provision of the general law. A by-law, therefore, which requires four-fifths of the stock to be represented in order to constitute a quorum, must be deemed to be subordinate to the statute which provides for the annual election of directors. A by-law providing that Cushing's Manual shall be adopted as the formal model of procedure governing debates at corporate meetings is valid.

By-Laws Regulating Examinations of Records and Documents

Provisions in the general laws and the certificate of incorporation usually prescribe the manner or the conditions which regulate examination of books and documents of the corporation by the stockholders. In the absence of such statutory or charter provisions, however, the by-laws may lay down the rules governing such examinations, provided that unreasonable restrictions are not placed upon the exercise of such inspection. A by-law directly or indirectly denying such rights of examination to a stockholder is invalid and peremptory mandamus will be granted by a court of equity to enforce this right.

By-Laws Regulating Voting

Voting procedure prescribed in by-laws will govern in the absence of conflicting provisions in the general law or certificate of incorporation. Such by-law regulations, however, must be reasonable and must not violate the rights conferred upon a non-consenting stockholder by the general law or the certificate of incorporation. Moreover by-law provisions cannot be employed to enlarge statutory limitations of the voting rights or to change or to depart from statutory requirements. Thus if the constitution, statutes or the certificate of incorporation provide for cumulative voting, this right cannot be changed by a by-law. A by-law allowing each stockholder to cast a vote for

each share of stock held although a departure from the common law basis that each stockholder is limited to one vote, is valid provided that no governing provision is laid down in the general law or the certificate of incorporation. There is authority for extending this modern rule to include not only by-law provisions regulating the voting for election of directors but also election of a chairman or any corporate officer in which a vote is required.

Prescribing Conditions of Transfer

An express authorization may be given by the general laws for the adoption by the corporation of by-laws prescribing regulations for the transfer of stock. This authority must, however, be granted in unmistakable terms and will not be implied. When the transfer of shares is not regulated by the general corporation law, the rules at common law regarding the transfer of personal property apply. Statutory provisions governing the transfer of stock must be faithfully complied with. Statutes empowering corporations to pass by-laws regulating the manner in which stock shall be transferred on the books cannot be interpreted to comprehend restriction on the right to transfer as this would constitute unreasonable interference with property rights, and a consequential restraint of trade. Obviously if a by-law is invalid *per se* the fact that it has been passed unanimously will not avail to make it effective. A by-law that attempts to impose upon a stockholder the requirement that his stock must first be offered to the other stockholders at the price which he is able to obtain from others has been held invalid as being in restraint of trade. The inefficiency of such a by-law regulation, however, does not prevent one stockholder from entering into a contract with another on such terms and conditions as may be agreed upon. An attempt has been made by at least one court to spell out from the language of an invalid by-law a contract obligation binding upon an assenting stockholder. The grounds for such a decision are subject to the limitation that authority to make a contract of this kind must be expressly or impliedly granted in the certificate of incorporation, or under the general laws. In any case a by-law regulation requiring a stockholder to offer his stock to the corporation may be waived by the corporation.

By-Laws Regulating Method of Transfer

In contradistinction to by-laws which violate property rights and the right of alienation are those by-laws prescribing the method of transfer, the object of which is reasonably to keep the corporation duly informed as to the identity of its stockholders. Those by-laws requiring that the transferee shall register the stock or that the certificates must be surrendered at the time the entry is made on the books are reasonable regulations and will govern the acts of the transferor and the transferee. It must be remembered, however, that while such by-law provisions are valid in respect to the definition of the relations between the stockholder and the corporation, they cannot operate to determine the title either legal or equitable to the stock itself. The transferee may get a perfectly good title to the stock although a by-law regulation will be enforced preventing his exercising a right to vote or to receive dividends. This is the rule notwithstanding the statutory authorization to adopt by-laws regulating the manner in which the stock shall be transferred. Since by-laws of this kind are adopted for the protection of the corporation, they may be expressly or impliedly waived, as by the pursuance of a course of action inconsistent with the provisions of the by-law, especially where such a course of action prevents the transfer of the stock in the manner imposed by the by-laws. In New York, the statute requires the transfer to be entered on the corporation's transfer books by an entry showing from and to whom transferred. If a corporation, however, actually maintains no transfer books the execution of an assignment and power of attorney will operate to transfer the stock.

Establishing Stock Lien

The general corporation law or the certificate of incorporation may authorize the corporation to establish a lien on stock for indebtedness due it by enacting by-laws to that effect. Such liens will be effective even against transferees without notice. At common law, however, the existence of a debt from the shareholder to the corporation did not give it any paramount right over other creditors. Even if the state law authorized the corporation "to make by-laws for the management and disposition of its stock and business affairs, the stock to be transferable in such manner as shall be prescribed by the by-laws, no share to be transferable until all previous subscriptions shall have been paid in," this authorization has been held not to justify a by-law establishing a lien on stock for the benefit of the corporation. Today by weight of authority in the absence of a general law or statutory or charter provision, a corporation may, by a by-law, create a lien on stock, and the

lien will be binding on transferees who are not bona fide purchasers, but ineffective as against bona fide purchasers. But the conduct of a stockholder, who participated in the proceedings in which a by-law providing for a stock lien was adopted, may cause an innocent third person subsequently claiming through him to be estopped from denying such lien.

If the state law prohibits all express agreements between the corporation and the stockholders for a corporate lien on the stock, a by-law provision to that effect will be invalid. The New York Statute and the Uniform Stock Transfer Act provide that a corporation cannot claim a lien on the stock unless the provisions of the statute are written or printed on the stock certificate. The corporation in New York, however, under judicial construction of this statute, does not derive a lien, but merely a right to refuse a transfer during the indebtedness. In Indiana, it was held that a corporation, whose charter gave it a lien upon the stock of a stockholder, had no lien thereunder for a debt of his assignee on stock which had not been transferred on the books.

Notice of a by-law provision establishing a lien upon stock will not be assumed from the usual wording on the face of the stock certificate that it is transferable only on the books of the corporation in person or by attorney on surrender of the certificate. Accordingly, the lien of the holder of corporate stock as collateral security is superior to the lien of the corporation pursuant to an unposted by-law.

Manner of Repealing By-Laws

No formal procedure is required to be used by those having the repealing power, providing no governing provisions are imposed by the certificate of incorporation or the general laws. A by-law defining a procedure of adoption is, therefore, repealed by the adoption of a by-law in a manner inconsistent with that procedure and where the subject matter of a by-law subsequently adopted conflicts with the subject matter of one in existence the latter is repealed by implication.

If the general laws or the certificate of incorporation provide the manner in which by-laws shall be repealed such statutory or charter provisions must control. Otherwise, they may be repealed by the corporation at will. The repealing power is an inevitable incident of the power of adoption.

Presumption of Notice to Third Persons

The rule that stockholders are presumed to have notice of the duly adopted by-laws of the corporation is, in general, not extended to bind third persons unless such by-laws are especially authorized in the certificate of incorporation or the general laws. If a third person, however, has actual knowledge of by-laws not prescribed in the statute or certificate of incorporation, he will generally be held to be bound by such provisions. Contracts made by the corporation with a third person in which a by-law provision is referred to must be deemed to incorporate the provision as an integral part thereof, provided the third person was induced to enter into the contract because of such by-laws. Moreover, by-laws are of no force as limitations *per se* on third persons of an authority which except for the by-laws would be construed as within the apparent scope of the corporate agency.

By-Law Regulation of Voting Unit

Although provisions in the general law or the certificate of incorporation prescribing cumulative voting must be carefully complied with, in the absence of such provisions, by-law regulations of the unit of voting will prevail.

Amendments of By-Laws

The power to amend by-laws is inherent in the corporation, and incident to the power of adoption. As is the case of the adoption of the by-laws themselves, however, the amendments must be consistent with the general law and the provisions of the certificate of incorporation, must be reasonable and must not impair any vested rights of the stockholders. Subject to this qualification, all by-laws in their very nature are subject to amendment, alteration and repeal—for any matter which is the proper subject of regulation by by-law may be so regulated from time to time as the corporate interests demand. Furthermore, all such amended by-laws are binding on all those who would be affected by the original by-laws. Organizations must take care not to construe this power to amend too broadly and should bear in mind the rule that a corporation cannot so amend its constitution and by-laws as to make an altogether new and different kind of association.

Stockholders' Presumption of Notice

A legal or irrebuttable presumption of notice of the existence of by-laws is ordinarily said to exist in respect to

the stockholders of a corporation. The rule, however, does not apply to business regulations laid down for the government of the corporation's relations with the general public. Accordingly a stockholder, when dealing with the corporation as a customer, is not affected by such rule. When the circumstances are such, moreover, that it would be inequitable to apply the rule, exceptions will sometimes be made. For example, if a stockholder is supplied with a set of by-laws and informed that they are the by-laws of the corporation, whereas in fact they are imperfect or incomplete, it has been held that the stockholder will not be bound by those portions of the by-laws which have been omitted. The presumption of knowledge, which attaches upon a person becoming a stockholder in the corporation, cannot have such a retrospective effect as to relate to transactions which have occurred previously.

CHAPTER V

STOCKHOLDERS' MEETINGS

Classification of Meetings

Meetings of stockholders are ordinarily classified as regular or special. Regular meetings are those required by the statutes, charter or by-laws governing the corporation. Quite frequently the annual meeting of stockholders is the only regular meeting. Special meetings are those held to consider and take action upon particular items of business which may arise from time to time during the year and upon which it is necessary or advisable to have the stockholders take action.

Annual Meeting of Stockholders

Ordinarily the annual meeting of stockholders is regulated by the statute, charter or by-laws governing the corporation. Theoretically, since the time and place of the annual meeting of stockholders are prescribed in the statutes, charter or by-laws, the stockholders are presumed to have notice thereof and further notice, it has been held, is not essential. In a great majority of instances, however, these very governing regulations require that notice of the time and place and objects of the annual meeting of stockholders shall be given to the stockholders. These governing regulations should be strictly complied with.

Manner of Giving Notice

At common law the requirement that notice shall be given means that notice shall be handed to the individual in person. Under modern procedure, however, notice by mail is permitted by the governing regulations. The notice should be served personally or mailed in due time, that is, the prescribed number of days prior to the meeting; and, when mailed, should be addressed to each stockholder whose name appears on the books of the company; sometimes also the governing regulations require that the notice shall be published in newspapers a stated number of times.

Contents of Notice

The notice should state the time of the meeting, the time indicated being the exact hour when the meeting is to open.

Usually the time and place are fixed in the by-laws. The notice should state the place of the meeting. The statute, charter, or by-laws are often specific on this point, and declare that the annual meeting of stockholders shall be held at the principal office or principal place of business of the company within the state. That would be the most appropriate place. Statutory provisions in a few states permit meetings of stockholders to be held without the state; but it is unusual, and unless specifically permitted, stockholders' meetings should be held within the state.

The object for which the meeting is to be held is next stated. This is almost always the election of directors, or, if they are divided into classes, a certain proportion of the directors who hold office for a stated term. Inspectors of election, who in theory should represent the stockholders as distinct from the present management and who should act as judges of the legality of voting at stockholders' meetings, are often elected at the annual meetings of stockholders. Sometimes this is required by statute, but more often by the by-laws.

Notification as to Unusual Business

It is usual to insert in the notice a clause that the minutes of the corporation will be open for inspection during the meeting and that the stockholders will be asked to ratify all actions taken by the directors, committees, and officers of the company. Not infrequently other business is to be transacted at the annual meeting. The exact scope of business which may be transacted at annual meetings of stockholders without specific notification to the stockholders is not well defined in many states. It is good practice if matters of importance or of an unusual nature are to be presented to the stockholders for consideration, to include among the objects of the meeting a brief statement of such matters. Still greater precaution would suggest that matters of great importance be kept separate from the annual meeting of stockholders, and taken up at a special meeting. This is particularly true, where the statutes declare that certain matters must be determined by the stockholders at special meetings. The statement of objects set forth in the notice usually closes with a catch-all clause to the effect that such other business will be considered as may be brought before the meeting. As stated, the exact scope of this clause, in connection with a general annual meeting, is not clearly defined; and matters of importance should, if possible, be specifically mentioned in the notice.

Additional Contents

The notice usually specifies a time during which the polls will be open for the election of directors.

For convenience in determining who have a right to vote at meetings of stockholders some definite time is fixed for the determination of that right. A statement to the effect that the transfer books will close at a certain time or that stockholders as of a certain date will be entitled to vote is frequently inserted in the notice. This matter is generally regulated in the by-laws, sometimes specifically, and sometimes by a provision that the directors may in their discretion order the books closed a certain length of time before meetings. If only for convenience in referring thereto, the notice should be dated. The notice is signed by some officer authorized to do so in the by-laws. Customarily by-law provisions are found to confer that power on the president, a vice-president, or secretary, or any one of these officers. The notice should appear by its signature to be an official notice. It is an appropriate secretarial duty and generally the power is presumed to be in or to include that officer.

Mailing Proxies With Notices

Particularly among corporations having a substantial number of stockholders, it is the regular practice to include a proxy with the notice of meetings. Not infrequently the proxy to be exercised is drawn by persons connected with the present management; and it requests the stockholder if unable to be present in person, to sign and return it. A stamped envelope is also usually sent to the stockholder. Statutory provisions are to be found limiting the time during which the proxy is effective; and usually it appears on its face to be effective only for a certain meeting or any adjournment thereof.

Special Meetings of Stockholders: The Call

Special meetings differ from the regular or annual meetings in several important particulars. First, they must be "called"; that is, the initial move to bring the stockholders together originates with some particular person or persons rather than, as is the case with regular meetings, in a general provision that a meeting shall be held at a certain time and place. Quite often the statutes, sometimes the charter and very frequently the by-laws prescribe what person or persons have the right to make the call. These provisions differ markedly in different states, for different pur-

poses, and among the different corporations. The board of directors usually has the right; sometimes a certain number of directors may make the call, sometimes the president, and often a certain proportion of the stock. Commonly, also, the right is conferred on either or any of these persons jointly or in the alternative. About all that can be said is that the governing provisions respecting the "call" for a special meeting of stockholders should be strictly complied with. A call by an unauthorized person or persons is not a sufficient basis on which legally to hold a special meeting of stockholders.

Contents of Notice of Special Meeting

After the call is made, it ordinarily becomes the function of the secretary of the corporation to prepare a notice of meeting pursuant thereto. The notice must conform accurately with the call. There must be no variance between the two. It is common practice to set forth in the opening sentence after the words, "Notice is hereby given" a clause to the effect that, "pursuant to the call of the board of directors" (or otherwise as the case may be) "a special meeting of stockholders will be held." The time and place of the meeting, including the exact hour of assembling must, of course, be stated. In these respects the requirements of the statute and of the charter and by-law provisions applicable to the particular proceeding must be carefully complied with.

Specific Notification of Each Item of Business

The business to be transacted must be fully stated. Only business specifically set forth in the notice may be acted upon by the stockholders; and the formal statement usually found at the end of the notices of special meetings to the effect that the meeting may consider any other business that is brought before it has been held to be ineffective to enlarge the scope of the matters which may properly be acted upon. By-law provisions applicable to all meetings of stockholders whether regular or special, are often found respecting the closing of the transfer books a certain length of time before the meeting, or fixing a date for the determination of stockholders entitled to vote at the coming meeting. If so, a statement covering these matters is always inserted in the notice. The notice is dated for convenience. It is signed, usually by the president, vice-president, or secretary, or by the person or persons specially authorized by the governing regulations to send out the notice of special meetings. It is quite customary especially among the larger corporations to include a proxy, so that stockholders unable

to be present in person, may be represented at the meeting. It is also common practice to include a letter or statement respecting the proposed action, its purpose, advantages, reasons, etc., so that stockholders may have the data on which to act intelligently.

Necessity of Notifying All Stockholders

Great care must be taken to see that the notice is given to all the stockholders. It is not like a regular or stated meeting, the time and place of which is presumed to be known to the stockholders from the statute, charter or by-laws. It has been said that a single stockholder, not given notice, may set aside the entire proceeding. At common law the notice must be personally given; usually, however, under statute, charter, or by-law provisions the notice may be mailed to the stockholders. Not infrequently, also, notice in a newspaper is required. Proof of due service should be prepared and be ready for presentation at the meeting.

Special meetings of stockholders may, and among the smaller close corporations, frequently are held on a waiver of notice and consent to the transaction of business. This obviates all formalities, conserves time and expense, and opens the special meeting to the consideration of such matters as may be brought before it. Obviously, among the large corporations this method of procedure becomes a practical impossibility, and even among the smaller corporations the difficulty of obtaining the consents may outweigh the advantages.

Stock List and Certification of Proxies

After the stock transfer books are closed, or after the date fixed for determining what stockholders are entitled to vote at a coming stockholders' meeting, an alphabetical list of stockholders is usually prepared. Such a list is required by statute in some states, or, in many instances, by the by-laws of the corporation. It is a convenience in almost every case except perhaps in a very small closed corporation. Statutory or by-law provisions may also require that the list be open to inspection for a certain number of days preceding the meeting. Occasionally also, regulations are found authorizing holders of proxies to submit their proxies to named officials of the company and call for a certificate to the effect that the proxy is regular and represents the shares of stock held by the person who executed it. Such a certificate is made *prima facie* evidence of the number of shares represented by the holder of the proxy for the pur-

pose of establishing a quorum, organizing the meeting, and for all other purposes.

Preparation for the Meeting

During the period preceding stockholders' meetings, thought is given to the preparation of matters likely to arise at the meeting. Official reports, whether by the directors, committees, officers, or special committees are put in order, and arrangements made for their presentation with necessary explanations to the stockholders. In many instances the meetings of corporations are quite formal, and everything can properly be arranged in advance; and even when stockholders representing diverse interests are expected to attend, expeditious transaction of business can be secured by proper preparation without making the meeting a cut and dried affair. A rough draft or outline of the minutes as the business is expected to take form at the meeting has been found a useful expedient for the secretary as well as for the presiding officer.

Order of Business

A list or schedule of the proper order of business has also been found valuable. In some corporations the by-laws set forth the order of business at meetings of stockholders. Strict adherence is not always necessary, but unless there is good cause for departing from the by-law requirements, such order is usually complied with. A convenient and logical order of business at meetings of stockholders, after the meeting has been called to order, is as follows:

1. Proof of due service of the notice.
2. Calling the roll.
3. Reading minutes of previous stockholders' meetings.
4. Reports (President, Secretary, Treasurer, Committees).
5. Ratification of acts during past year.
6. Election of Directors.
7. Election of Inspectors for ensuing year.
8. Unfinished business.
9. New business.
10. Adjournment.

At special meetings of stockholders only business of which due notice has been given can be transacted, so that after the organization of the meeting and the roll call or ascertainment of stock present, special business must be at once brought forward and disposed of. Adjournment follows.

Organizing the Meeting

At meetings of stockholders the chairman of the board of directors, the president, a vice-president or the treasurer usually calls the meeting to order and presides. The secretary's duty is to keep the minutes or record of the meeting. Specific instructions to that effect are often embodied in the by-laws. If no such provisions are found the stockholders have the right to organize their meeting by the selection of a chairman and a secretary.

As soon as the meeting is organized it is customary to ascertain what stockholders are present or represented, and the amount of stock so represented. It is, of course, elementary and well known that in the ordinary business stock corporation, it is not the individual members that count; it is the amount or number of shares of stock owned by such individuals. One man may be the owner of all or substantially all of the stock.

Ascertaining Presence of a Quorum

In small, close corporations, the secretary who is familiar with the personnel may simply state to the presiding officer that all the stockholders are present, or that such and such ones owning so much stock are present, and whether or not a quorum is represented. In moderate-sized corporations, the secretary sometimes calls the roll from his alphabetical list and marks the stockholders present in person or by proxy with the amount of stock represented. He then readily ascertains what stock is present and whether or not it constitutes a quorum. In large corporations, with a vast number of stockholders, the stockholders or their proxies are invited to report to the secretary, who marks those present and the amount of stock represented and thus ascertains the totals and reports to the presiding officer. Thus it is found whether or not a quorum is present.

Definition of Quorum

At common law, a quorum consisted of any number of members who were actually present, even if less than a majority. Statutory, charter, or by-law provisions often declare that the presence of a majority of the outstanding stock shall be necessary to constitute a quorum for the transaction of business. Such regulations specify a greater or lesser proportion of the stock. At common law if a quorum was present a majority of a quorum could take action. Under particular statutes, it is sometimes necessary to have the affirmative vote of a certain proportion of those present,

or even of the entire outstanding stock. It is apparent, therefore, that it is necessary to ascertain at once, whether or not the meeting is attended by such a proportion of stock, so that it can do business. If a quorum or the proper proportion of stock necessary to transact the business in hand is not present, the meeting fails. However, either in the statutes or the by-laws, there is usually a provision to the effect that in the absence of a quorum, those in attendance may adjourn the meeting from time to time by mere announcement at the meeting, until a majority is obtained. If a quorum is found to be in attendance, the presiding officer so announces.

Proof of Giving of Notice

The next step is to present and make a record of the giving of due notice of the meeting to the stockholders. The statutes or by-laws generally provide for notice by mail, even of the regular annual meeting of stockholders. In case of meetings of stockholders for special purposes, it is unusual to find that the procedure in respect to the giving of notice is specifically governed by the statutes. Whatever is required in reference to the giving of notice is, in a sense, jurisdictional. Proof of the proper service or the publication should be presented to the meeting. Although the exact form, whether by affidavit, certificate, or mere statement of the secretary who gave the notice, may not be important in many instances, nevertheless affidavits of the person mailing the notice and the publisher of the newspaper in which the notices were inserted are desirable; and they may be attached to the minutes of the meeting to form a convenient and complete record.

A quorum being in attendance and proof of due service of notice of the meeting having been presented, the meeting is ready to proceed to business.

Reading of the Minutes

Ordinarily the next step is a somewhat formal one—the reading of the minutes of the last meeting of stockholders. The reading of such minutes may, of course, be dispensed with; or they may be read and approved, or read, corrected and approved as corrected. At special meetings of stockholders, the minutes of the last meeting should not be read unless such reading and approval has been notified to the stockholders as one of the objects of the meeting.

Report of Officers

As the reports of the officers of the company may influence the election of the directors to follow, such reports are

1. Annual meetings of stockholders are required by state laws and time and place of meeting are usually fixed by statute, charter or the by-laws.
2. Notice of annual meeting is not essential unless prescribed by statute, charter or by-laws.
3. If notice of a regular meeting of stockholders is required by covering provisions of statute, charter or by-laws such provisions must be strictly complied with.
4. Notice must be given of special meetings of stockholders and strict compliance must be made with provisions as to call and notice in state laws, the charter or the by-laws.
5. In notices of special meetings specific notification must be given of each item of business to be transacted.
6. At special meetings of stockholders the business transacted must be strictly confined to that in respect to which notice has been given.
7. Unless a quorum, as determined by the statute, charter or by-laws, consisting of more than a specified proporion of the stock, qualified to vote, is present, in person or by proxy, the meeting cannot legally be held.
8. Proxies must be executed in accordance with the regulations of the statute, charter or the by-laws, in respect to seal, witnesses, acknowledgment, etc.
9. Voting rights are ordinarily determined by the registration of ownership on the stock records of the corporation. Special exceptions are sometimes made in the case of executors, administrators, etc.
10. It is important to ascertain whether the usual rule that each share is entitled to one vote, is subject to the right to cumulate votes, pursuant to constitutional, statutory or by-law regulations.

Fig. 10: Points Relating to Stockholders' Meetings

usually next to be placed before the meeting. That is the customary order of business. The reports generally take precedence in the following order: Directors (if any), president, treasurer, committees. It is not unusual merely to receive and file such reports. Sometimes they are discussed and criticized, and give rise to dissentions at the meeting. Usually they are received and ordered filed. If they contain recommendations, which the stockholders should act upon, such recommendations are then disposed of, or are passed temporarily and brought up later as new business.

Frequently, there is embodied in the notice of the annual meeting of stockholders, a clause setting forth that the minute books of the company will be presented to the meeting and that the stockholders will be asked to ratify all the acts of the directors, committees, and officers of the company during the preceding year. When such a proposal is included in the notice, the minute books are brought to the meeting and it is usually considered an appropriate time to offer the formal resolution after presenting the reports.

Election of Directors

In the case of many small corporations, the management goes on from year to year without change. Annual meetings and the election of directors thereat are omitted, and the directors and officers simply hold over and continue their functions without the formality of meetings. But among the larger corporations, annual meetings of stockholders are carefully conducted. And ordinarily, there is no more important item of business than the election of directors.

Appointment of Inspectors

The appointment of inspectors of election, to conduct the election and act as judges, is a frequent requirement prescribed by the statutes or by-laws. In the absence of statutes or by-law prohibition, stockholders, directors or officers are eligible for appointment; but the governing regulations often forbid directors, candidates for election, or the officers of the company to serve as inspectors. The method of appointment varies considerably; the laws of some states necessitate the election of inspectors at the stockholders' meeting, and by-laws often make the same requirement; in the event of the absence of an inspector provision is made for the appointment of another, either by the stockholders, the directors or the presiding officer at the meeting. The statutes or by-laws often require that the

inspectors be sworn to faithfully discharge their duties. The duties of inspectors, although on many occasions merely formal, may in the event of a controversy at the meeting become very important. Their duties include the taking of the proxies and passing on their validity, and the determination of the right to vote (in which determination, however, they are to be guided by, and not to go back of, the stock books or stock ledger), the taking of the ballots, counting the ballots, and reporting the result to the chairman of the meeting, who then announces the persons elected.

Voting by Proxy

The right of a stockholder in a business corporation to be represented and to vote by proxy at a meeting of stockholders is firmly established. Usually it is assured either by statute or by-law. Regulations respecting the form, such as the necessity of affixing the seal, witnesses, acknowledgments, etc. are often prescribed; limitations respecting time, declaring for instance that a proxy must be executed within a certain length of time before a meeting, or that it is valid only for a certain length of time after execution, are also quite common; but the fundamental right to vote by proxy cannot be abrogated. Proxies are often sent to stockholders by the corporation to be executed and returned and to authorize a person or persons named in the proxy to vote the stock, thus perpetuating the management. Proxies may be executed by other corporations owning stock in the company which is holding the meeting. Proxies by executors, administrators, guardians, etc., should contain a specific direction respecting the vote, since the discretion of such a fiduciary regarding the vote cannot be delegated to an agent. Customarily the proxies are filed at the meeting. They may be revoked by the stockholders unless the holder of the proxy has an interest in the stock. The stockholder's presence at the meeting ordinarily revokes the right of the holder of the proxy to vote.

Voting Rights

The stockholder's right to vote is based on his ownership of the stock. In the absence of statute, charter, or by-law provisions, holders of preferred stock have the same right to vote as holders of common stock; but not infrequently the voting rights of the preferred stockholders are restricted, as for instance, by declaring that such stock may not vote for directors unless preferred dividends fall into default for a stated length of time, or by providing that preferred stockholders may have the right to elect a certain

proportion of the directors, or by providing that preferred stockholders may only vote on certain questions which would affect the precedence of their stock, such as other issues of preferred stock, bond issues, etc. Restrictions on their right to vote are matters of contract, and are not invalid. Stock is, at times, classified in other ways in respect to voting rights and such classifications are ordinarily upheld. The determination of the actual right to vote is usually quite simple. The alphabetical list at the meeting usually proves sufficient. If not, reference is made to the stock books or stock ledger. The record owner is the person entitled to vote the stock. The inspectors are guided by these books. An exception is to be noticed in the case of executors. administrators, or guardians. Although in such cases the stock is in the name of the decedent or ward, the fiduciary, on producing his letters or other sufficient showing of authority, should be allowed to vote. Sometimes special by-law provisions are found authorizing pledgees of stock to vote. Corporations may vote by giving some individual a power of attorney to do so on behalf of the corporation. In the absence of provision to the contrary the fact that there may be arrearages due on the stock does not affect the right to vote. Inspectors are not permitted to go back of the record ownership as evidenced by the stock books; they must not attempt to decide conflicting rights and equities as between different claimants to the stock; nor can they refuse to accept a stockholder's vote on the ground that he has a personal interest in the matter on which a vote is taken, since ordinarily, such interest does not bar him from the right to vote.

Cumulative Voting

The most usual statutory and by-law provision respecting the voting for directors is that the stockholder is entitled to one vote per share. For instance, if a stockholder owns one hundred (100) shares of stock, and there are five candidates for directors, namely, A, B, C, D, E, 3 to be elected, the stockholder may vote one hundred (100) shares for, say, A, 100 for B, and 100 for C. The laws of the several states and the by-laws of corporations in some instances attempt to protect minority interests by prescribing cumulative voting. Under such system any stockholder may multiply the number of shares held by him by the number of directors to be elected and may cast all of his votes for one director or divide them among such as he sees fit. For instance, in the example above given the stockholder might cast three hundred votes for, say, A, and none for any other candidate.

Formulae for Solving Problems of Cumulative Voting—The fact that cumulative voting is permitted under the laws of the state is in itself sufficient to put stockholders or those looking after their interest on inquiry as to the voting status of their shares separately or in groups and the bearing thereof upon the personnel of corporation management. The pooling of votes of two or more stockholders may make possible the election of one or more directors which would be impossible under the system of giving one vote for each share in balloting for each candidate. The fact that cumulative voting is sanctioned by the law of the state does not necessarily mean that the privilege exists in all corporation elections. This practice is universal in Pennsylvania because of a constitutional provision conferring the right upon all stockholders. In some states the statute authorizes cumulative voting if a covering provision is inserted in the certificate of incorporation. An enumeration of the states in which cumulative voting is permitted is shown in Section IX.

Because of the importance of the subject and the complexities presented in instances where substantial blocks of stock are held by a considerable number of stockholders, formulæ have been developed to facilitate calculations of cumulative voting results. Every corporation accountant should be familiar with these formulæ.

Formula for determining number of votes to be cast for each given number of directors—Certain algebraic formulæ have been proposed to assist in solving problems of cumulative voting, and to the accountant proficient in algebra these may be advantageous. Thus if d represents the number of directors to be elected, s the number of shares owned by the stockholder, c the number of directors for whom the stockholder wishes to vote and x the number of votes possible to cast for each of the directors so chosen, the formula would be,

$$X = \frac{d \times s}{c}$$

It would seem equally effective and perhaps more satisfactory to accountants who seldom have occasion to use algebraic formulæ to amplify the formula as follows:

$$\text{Number of votes to be cast for each director} = \frac{\text{Whole number of directors x number of shares owned}}{\text{Number of directors to receive cumulative votes.}}$$

Thus if the total number of directors is seven and the owner or authorized representative of 300 shares wishes

to cumulate the votes among three directors, we may apply the formula as follows:

$$\text{Number of votes to be cast for each director} = \frac{7 \times 300}{3} = 700 \text{ Votes}$$

Formula for determining number of shares essential for cumulation on a given number of directors in order to assure their election—If d represents the number of members of the whole board to be elected, t the total number of shares qualified to vote, e the number of directors desired to be put in office by cumulative voting and x the number of shares essential for cumulation to assure election of e, the algebraic formula would be

$$X = \frac{t \times e}{d + 1} + 1$$

For universal application, the formula may be thus amplified:

$$\text{Number of shares essential to elect a given number of directors} = \frac{\text{Total number of shares qualified to vote} \times \text{Number of directors upon whom cumulative votes are to be concentrated}}{\text{Number of members of whole board to be elected} + 1} + 1$$

Thus if there are 6000 shares qualified to vote, and it is desired to obtain the minimum number of cumulative votes necessary to be concentrated upon three candidates for directors out of a board of seven, all members of which are to be elected, we may apply the formula as follows:

$$\text{Number of shares necessary to be cumulated} = \frac{6000 \times 3}{7 + 1} + 1 = \frac{18{,}000}{8} + 1 = 2251 \text{ shares}$$

If the result includes a fraction, the fraction should be disregarded.

Formula for determining the number of candidates as directors which a given number of cumulative votes controlled by one or more shareholders will elect—If t represents the total number of shares qualified to vote and d the number of members of the whole board to be elected, s the number of shares owned or controlled by the stockholders or group and x the number of members that s will elect, we may apply the formula as follows:

$$X = \frac{s\,(d + 1)}{t}$$

For universal application the formula may be thus amplified:

$$\text{Number of directors that given number of cumulative votes will elect} = \frac{\text{Number of shares owned or controlled by stockholder or group} \times \left(\text{Number of members of whole board to be elected} + 1\right)}{\text{Total number of shares qualified to vote}}$$

Thus if there are a total of 10,000 shares qualified to vote at the election of seven directors and 3900 shares are owned and controlled by a group of stockholders, in order to ascertain the number of directors which the 3900 shares, cumulated, will elect, we may apply the formula as follows:

$$\text{Number of directors cumulated votes will elect} = \frac{3900 \times (7 + 1)}{10{,}000} \quad \frac{31{,}200}{10{,}000} = 3$$

Importance of Studying Circumstances When Votes May Be Cumulated

If the potential effects of cumulative voting operative in a given corporation are not studied and anticipated, the results may be surprising and disconcerting. Assume in the example presented in the preceding paragraph that 3900 shares are owned or controlled by a group of stockholders who have previously not had any representation on the Board; that the owners of 6100 shares cast 6100 votes for each candidate at the election, but that the owners of the 3900 shares cumulate their votes on four directors. The result will be that these four directors, a majority of the Board, will be elected, since each of the four will receive 6825 votes whereas each of the candidates voted for by the owners of the 6100 shares will only receive 6100. If, however, the owners of the 6100 shares had cumulated their votes they could have elected a majority of the Board.

Manner of Voting

It is a common provision either of the statute or the by-laws, that voting for directors shall be by ballot. At times, however, governing regulations provide that the voting for directors and upon other questions before the stockholders, shall be by ballot only if that procedure is demanded by any stockholder. If there is no governing provision or if demand for a vote by ballot is not made, the voting may be in any parliamentary way, as by voice or by show of hand, standing, or even directing the secretary to cast one vote for the candidates. If voting is by ballot, the polls are closed, the inspectors take the ballots, count them, and re-

port the result to the chairman, who makes the appropriate announcement of the result. A stockholder may change his vote up to the time of the announcement of the result of the vote but not thereafter. The report of the inspectors is filed as a corporate record. The statutes in a few states require it to be filed in certain public offices. An added precaution, especially if there have been any disputes or if any dispute is anticipated, is to preserve the ballots.

Inspectors for Following Year

The next item of business is the selection of inspectors of election to serve during the following year. If, pursuant to the by-laws, inspectors are appointed by the directors or by the presiding officer, this item of business is not on the program at all. If however, the stockholders are called upon to select the inspectors for their meetings, that procedure is appropriately disposed of immediately following or coincidently with the election of directors.

Unfinished Business

Unfinished business is usually next in order. This item would include matters which have been referred to committees. The chairman, or some other member of the committee, or in fact any person from the floor, or as arranged in advance, could bring the matter up informally for discussion, or formally by reading a proposed resolution. The proposition is then dealt with in a parliamentary way.

New Business

After unfinished business has been completed, an opportunity for the introduction of new business is usually afforded. Under the by-laws adopted by some corporations, it is specifically stated that the annual meeting of stockholders is a general meeting, and is open for such business as may be brought before it. The exact limitation on what is properly brought forward at annual meetings of stockholders is difficult to define. Many important corporate transactions are specifically dealt with in the statutes which require that notice of those particular items of business must be given, and that various proportions of the stockholders shall be necessary to act on that particular proposition. Such matters are properly brought forward at special meetings for that particular purpose, and are not in order at general meetings unless due notification is given and all necessary steps taken in addition to those necessary for the annual meeting of stockholders. A wide range of possible corporate action is left open for the stockholders' consideration, but ordinarily matters requiring discretion will be passed on to the directors for determination, or to a committee for a special report on the advisability of taking the proposed action.

Adjournment

When the business before the meeting is terminated, adjournment is taken. Ordinarily the adjournment is final; that is, until the next regular or annual meeting of stockholders. If, however, there is unfinished business or other cause makes it advisable, adjournment may be taken from day to day, to a definite date, or at the call of the president. It is proper practice, unless the adjournment is taken to a date within a few days of the preceding session, for the secretary to send out notices of the time and place of the reconvening of the meeting.

Procedure at Special Meetings

Special meetings of stockholders differ from the regular ones chiefly in the business which may be transacted thereat. After organizing the meeting by the selection of the presiding officer and secretary, care must be taken to ascertain accurately whether enough stock is represented to act legally upon the particular proposition which the meeting is called to consider. Certain corporate actions require a much larger proportion of the stock to adopt than other corporate actions. The by-laws bearing on the special matter if not contrary to the statute must also be observed. If the stock present is insufficient for action, the by-laws usually permit the stockholders present to adjourn from day to day or to a definite date without further notice, thus affording an opportunity to secure the presence of enough stock to act on the particular proposition. If the proper proportion of stock is in attendance, care must be taken to present proof of the giving of the notice of the meeting as required by law and the by-laws. The proper notification to all the stockholders may be said to be jurisdictional. If notice has not been duly given the meeting cannot validly act, unless, of course, all stockholders are present and consent. It is customary to make the proof of notice a part of the minutes by attaching the affidavits or certificates of such service or publication to the minutes. The validity of the proxies and the voting rights of stockholders present substantially the same problems at special as at regular meetings of stockholders. After the stock represented has been ascertained and proof of the giving of notice presented, the meeting comes right down to the proposition which it is called together to pass upon.

There is no reading of prior minutes, unless that has been made a part of the notice; no reports are offered; nothing, in fact, is considered except the business specified by notice. That business is stated to the meeting, explained, the proposition discussed, and acted upon. A formal resolution is the best and sometimes under the statutes the only way to evidence the action of the stockholders. The resolution must be carefully, even exactly, prepared in accordance with the statutes applicable to the particular proposition. The vote must be carefully ascertained, since the officers of the meeting are often required by the statutes to make a certificate that a certain proportion of the stock voted in favor of the resolution and a certain proportion in opposition. At times the statutes authorize or require that the stockholders shall execute a document evidencing their action. If so, there must be careful compliance with that procedure. After the item or items of business of which notice has been given to the stockholders has been passed on, the meeting adjourns. No outside business can properly be brought up at a special meeting of stockholders, and this is so even when the notice contains the catch-all phrase that the meeting is called to pass upon such other matters as may be brought before it.

Nomination of Directors

In many instances the candidates for directors for the ensuing year are, in effect, nominated in advance of the meeting of stockholders and represent various interests in the corporation or are selected for their knowledge of the business or, perhaps, the influence which it is believed they may exercise. In small corporations, if the annual meeting of stockholders is held at all, the candidates are usually selected by the controlling interests. In controversies between interests rival lists of candidates may be put forward to represent the different policies at stake, and an active pre-meeting campaign for proxies conducted by the opposing factions. Theoretically and practically too the nominations are made at the meeting of stockholders. The chairman announces that the next business is the nomination and election of a stated number of directors. Names are proposed from the floor. When nominations are closed, the polls are opened, and remain open during the period stated in the by-laws, if provision is made to that effect, otherwise until all have voted or for a reasonable time after the polls have been opened.

CHAPTER VI

DIRECTORS' MEETINGS

Classification of Directors' Meetings

Directors' meetings, like meetings of stockholders, are usually classified as regular and special meetings. Regular meetings are commonly provided for in the by-laws either specifically or by a provision that the board of directors shall have power by resolution to make their own regulations in respect to the time and place for holding regular meetings. The corporate resolutions fixing the time and place of the regular meetings of directors may be said to take the place of the call which usually precedes the sending of a notice of a special meeting, and to obviate the necessity or desirability of a call.

Notice of Regular Meetings

Notice to the directors is not essential in the case of regular meetings. As a matter of good practice it is often given, but it is merely a convenient and courteous reminder to the directors of the proximity of the meeting. The by-laws customarily prescribe the time and place. Not infrequently the by-laws merely authorize the directors to fix the time and place by their own resolution. Monthly meetings are commonly provided for. The exact hour for the meeting must of course be specified. By-laws or resolutions frequently provide that if the regular meeting falls on a holiday, the next succeeding business day shall be the day for the meeting. If there are no such provisions, a meeting falling on a holiday is of no effect, unless some general statutory enactment declares that business of such a nature set for or falling on a Sunday or holiday may be done on the next succeeding business day. Ordinarily the place for regular meetings is fixed in the by-laws or in a directors' resolution passed pursuant to by-law authorization. Convenience is often decisive of the place of meeting. Unless so provided in the statute, charter or by-law, it is not necessary for the directors to meet at the office of the company. Neither in a majority of the states is it necessary that directors' meetings be held within the state in which the company is incorporated; but the statutes of each state must be consulted upon this point. The nature of the business

to be transacted at regular meetings need not be specified in the notice, if a notice is given. In the absence of some statute governing the particular proposition to be considered, the general rule is that any corporate business may be transacted at regular meetings. The notice of the regular meeting is signed by the officer authorized thereto in the by-laws.

Notice is given in various ways. Mailing is the most common, but the by-laws often authorize not only personal service or mailing, but also telegraphing or telephoning. As in the case of all notices, the time given to attend should be reasonable; by-laws often set twenty-four hours. Such a short notice might at times be unreasonably short. Where notices of regular meetings are directed by the by-laws to be sent, it is not uncommon to find as a precaution a clause to the effect that a failure to send or to receive notice shall not invalidate the meeting.

Call of Special Meetings

Provisions are frequently found in the by-laws to the effect that special meetings of the board of directors shall be called on the initiative of the chairman, the president, or a stated number of directors. The full board of directors has inherent power to call special meetings. The call for a special meeting of the board of directors is analogous to a call for a special meeting of stockholders. The call must state the time and place of the special meeting and the particular business to be transacted thereat. The by-laws often provide that the secretary of the company is the proper officer to send out notices; if so, the call must be handed to him as his authority for notifying the directors of the proposed special meeting. Sometimes, but not often, the by-laws provide that the notices of special meetings may be sent by other officers or even by the persons initiating the call.

Notice of Special Meetings

In the case of special meetings the call authorizes and indicates the form of the notice, including the time, place and purposes. Statute, charter, or by-law provisions respecting the giving of the notice should be carefully observed, since the directors cannot be presumed to have notice of special meetings. There are decisions to the effect that special meetings may be held without notice to all the directors in cases of real emergency, where observance of the strict rules of law would nullify all benefits of the proposed

action; and there are also decisions which rule that notice to inactive members may be omitted. These are exceptional situations, however, and do not furnish a safe guide to good practice. Strictly speaking, only business of which notice has been given can be transacted at special meetings, unless all the directors attend and consent to the transaction of other business. As is the case with regular meetings, the notice of a special meeting is usually signed and sent out by the secretary, but by-law provisions, anticipating controversies or to insure that the persons seeking the special meeting may bring it on promptly, may permit the notice to be signed and sent out by others.

A considerable number of meetings are arranged by waiver and consent, or by securing the attendance of all the directors. By-laws often recognize this method and provide that any and all business may be transacted at such meetings.

Preparation for Directors' Meetings

Prior to a directors' meeting, the secretary or other officer prepares an order of business, or list of matters to be attended to or, if it is anticipated that the meeting will be purely formal, a draft of the minutes is sometimes drawn in advance. At times the secretary is called upon to draft proposed resolutions, thus putting into good form for complete discussion matter which might otherwise be in such shape that necessary details would be overlooked. The usual order of business is often quite similar to that at stockholders' meetings; to wit, the organization of the meeting by the placing in charge thereof of the proper officers, noting the attendance, reciting, if desired, the service of the notice on the directors, the reading and approval or correction of the minutes of prior directors' meetings, reports, unfinished business, new business and adjournment.

Procedure at Directors' Meetings

Procedure at directors' meetings is apt to be informal. The presiding officer is customarily the chairman of the board, the president, the ranking vice-president, the treasurer, or if all of these officers are absent the meeting should appoint one of the members to act as chairman. The presiding officer should be, of course, a member of the board. These details are usually contained in the by-laws; and the by-laws frequently prescribe that the secretary of the company shall act as secretary of the meeting; if not, or if the secretary is absent, the presiding officer of the meeting may appoint a secretary to keep the minutes.

The meeting being called to order, the secretary notes who are present to determine whether or not a quorum is in attendance. At common law, a majority of the total number of directors is a quorum. The statutes, charter or by-law provisions may set a larger or a smaller number. It is well established that a director may not be present or vote by proxy. His personal presence and his individual judgment and discretion are involved in the proceedings, and he cannot delegate his powers in these respects.

Effect of Vacancies on Quorum

Vacancies in the board, as by death, resignation, or otherwise do not affect the number necessary to constitute a quorum. For example, if there is a board of seven directors, three of whom have resigned, it would be necessary to secure the attendance of the four remaining directors in order to constitute a quorum. If a quorum is not in attendance, the meeting fails. That is, unless there are regulations permitting less than a majority to adjourn from time to time, the directors present, being less than a quorum, do not have even that power. If a quorum is present, the meeting could be adjourned if desired, or could proceed to business.

Proof of Notice

Proof of notice of the regular meetings may not be necessary. If it has been given, a mere recital thereof on the minutes suffices in the absence of any objection. Safer practice would be to append to the minutes a copy of the notice with a statement endorsed thereon, giving the date of the service thereof on each of the directors or of mailing to them or otherwise as the case may be. At special meetings care should be observed in having the call and the notice of meeting incorporated into the proceedings, either by affixing to the minutes or by a recital that proof of the notice of meeting had been presented.

Meetings are often held on waiver and consent. Such meetings are perfectly valid, and since all the directors are present, or have already consented to such an informal gathering, any business within the power of the directors may be transacted.

Minutes of Last Meetings

The next item of business at regular meetings is usually the reading and approval or correction of the minutes of prior directors' meetings. This should not be looked upon

SUMMARY OF PERTINENT CONSIDERATIONS RELEVANT TO DIRECTORS' MEETINGS.

1. Notice is not essential in the case of regular meetings of directors, as the by-laws fix time and place or authorize the directors to do so.

2. If notice of a regular meeting is given, by way of convenient reminder, the nature of the business transacted need not be specified.

3. In a majority of the states, meetings of directors can be held outside of the state; but the state statutes must be consulted.

4. In the absence of some statute governing a particular proposition any corporate business may be transacted at regular meetings.

5. The board has inherent power to call special meetings; the by-laws, however, usually provide how the call shall be made.

6. Notice must be given of special meetings of the board and only business of which notice has been given can be transacted.

7. A director cannot be present or vote at meetings by proxy. He cannot delegate his powers, which involve his personal judgment and discretion.

8. A vacancy in the board does not affect the number necessary to constitute a quorum, which is definitely fixed with reference to the complete membership.

9. The number of votes necessary to pass a resolution and the manner of voting are usually specified in the by-laws although statutes sometimes determine the number of votes required in connection with certain important transactions.

10. Minutes of meetings of the board should be very carefully kept as they are often the best and practically, though not legally, conclusive evidence of what action was taken.

Fig 11: Points Relating to Directors' Meetings

as a ratification thereof. It is simply an opportunity to correct the minutes to make them represent what actually occurred at prior meetings. Sometimes the reading of minutes of the prior meeting is dispensed with. At special meetings, minutes of a preceding regular meeting are not read, unless that item of business has been incorporated in the call and notice.

Reports, Unfinished and New Business

Reports, unfinished, and new business, the next item or items of business at regular meetings, may not in practice be separated. They include the discussion of and decision on the management of the business and affairs of the company, approval of past actions of the directors, committees, officers or employees, and the determination of future policies and transactions. Typical examples of corporate action which may arise for discussion at this point have been incorporated in the resolutions shown in Section VI of this book. At regular meetings business of all kinds within the corporate powers may ordinarily be transacted. Possible exceptions are to be borne in mind of particular and important corporate actions, such as changes in internal organization, dissolution, and a considerable number of others, in which instances the statutes of the particular states should be consulted to determine whether or not a special meeting should be separately called and held and attended by a stated proportion of the directors. At special meetings, it is the theory and it should be the practice too, that only the business specially notified to the directors should be transacted, unless every director is present and consents to the consideration of other business. The by-laws in a considerable number of instances are, however, so drawn that they appear to permit the transaction of any business at all at special meetings. Such a practice would, it seems, nullify any difference between regular and special meetings.

Voting Procedure

Ordinarily a majority of a quorum is necessary to pass a resolution or to decide a matter. By-laws often make that specific provision. Sometimes, however, the by-laws or charter provide for either a larger or a smaller vote or fix a minimum number of votes as a requisite to the passage of a resolution. In certain important corporate transactions, statutory provisions necessitate a vote of a majority of the whole board or make other specific requirements. An efficient presiding officer familiar with conducting meetings

and knowing the business to be transacted, can dispose of many matters, especially those of a routine nature, fairly, accurately, and expeditiously, by stating the subject matter and noting the acquiescence or absence of dissent of the members, and then remarking that it will be considered ordered. Other matters should purposely be left for discussion, or for the initiative of some member, and a formal resolution should be offered, seconded, and acted upon. Directors may have their dissent recorded, and should, of course, do so where they feel that the action of the majority is illegal and might impose individual liability upon them. The chairman, like the other directors present, has one vote which he may cast or not as he sees fit. Ordinarily he does not vote unless his vote is necessary for a decision or to decide a tie vote. Voting need not be by ballot or in any particular manner unless the statute, charter, by-laws or rules of the directors themselves so prescribe. By-laws are to be found which declare that voting shall be by ballot if demanded by one or more of the directors. Not uncommonly the election of officers must be done by ballot; but unless so prescribed, such a method of voting is not necessary. Quite often the list of officers is accepted in advance and some informal style of voting is adopted, such as having the secretary cast one vote for the entire list.

Ratification of Irregular Acts

It is a frequent practice to ratify resolutions irregularly passed or acts done without due authority. The decisions are not perhaps entirely harmonious on the subject, but it is believed that the safe rule may be thus stated: Ratification of an act which is not utterly void, but which is merely voidable or irregular, may be effected by proper action of the board of directors at a subsequent valid meeting of the board; but even voidable or irregular acts cannot be ratified by the individual members of the board acting separately and not as a board.

Action by Individual Consents of Directors

Related to the subject of ratification is the provision found in some by-laws to the effect that the directors may pass resolutions by separately approving the same either before or after a meeting. Such a procedure is opposed to the theory of corporate management by the board of directors, and is questionable even though the consent of the

stockholders may be spelled out of the adoption by them of the by-law in question. The reason is, that statutory provisions often declare that the business and affairs of the corporation shall be governed by the board of directors, thus implying that action must be by a *board* and that individual action of the separate directors is not proper. Therefore, before adopting such a course of procedure in important matters due caution suggests that the statute and decisions if any, of the particular state be consulted.

Importance of Keeping Minutes

Due regard to the fallibility of men's memories, to say nothing of the warping thereof caused by future controversy, will lead corporate officials to keep accurate minutes of the meetings. The mere keeping of them induces care and thought; they often serve as the best possible form for similar action. In controversies such records are often the best and practically, though not legally, conclusive evidence of what occurred and what action was taken. It has been held that, although records of a meeting are available, parol evidence is admissible. In the absence of a specific statute or by-law to the effect that failure to keep a record invalidates the action, such failure does not render unrecorded action illegal. Even if such a requirement were found in the by-laws, it is doubtful that a stranger to the transaction would be affected by the failure to keep minutes.

Annual Meetings

An annual meeting of the board of directors for the purpose of electing officers and transacting other business is in a substantial number of corporations specially provided for in the by-laws. Sometimes the by-laws themselves contain the details of the time and place of the meeting. Often the by-laws provide for a meeting immediately after the meeting of stockholders, but occasionally the stockholders at their annual meeting pass a resolution calling a meeting of the directors and fixing its time and place. If all directors, both those re-elected and those newly elected, are present, the holding of a meeting immediately after their election for organization, appointment of officers and other necessary business may be advisable. It is not unusual to hold such an organization meeting on waiver and consent. If the attendance of all the directors cannot be obtained for an immediate meeting it seems to be a more reasonable course of procedure to call a meeting on proper notice to each director, thus giving each director an opportunity to

be present, and avoiding all question respecting the holding of a directors' meeting without notice to each of the directors.

Committee Meetings

The rules governing the calling, notification of, and meetings of committees are substantially the same as those governing directors' meetings.

Regular meetings of standing committees are usually regulated in the by-laws. The by-laws or other governing regulations prescribe the time and place of such regular meetings. Accordingly, the members are presumed to have notice thereof and a formal call or special notice is unnecessary. In the case of special meetings, however, the situation is different. The by-laws or governing regulations commonly provide for a call for a special meeting at the request of the president or of a certain number of the committeemen. As is the case with special meetings of directors the call is given to the secretary, who thereupon gives the notice of meeting.

Special Meetings of Committees

The notice of special meetings of committees, like that of special meetings of directors, states the time and place and objects of the meeting. The by-laws frequently provide that twenty-four hours shall be sufficient notice of meetings, and permit personal notice, mailing, telegraphing, and sometimes the doubtful method of telephone notice. A committee chosen in part for its compactness, and the ease with which it may be assembled, on many occasions is assembled informally, and does much of its business at meetings held by consent to waiver of formal notice. As is the case with similar meetings of directors such meetings require a waiver from each committeeman in advance of the meeting, or his attendance at the meeting.

Procedure of Committee Meetings

The procedure at committee meetings is informal. If the by-laws provide that the chairman of the board of directors or the president shall be a member of the committee, that official usually presides. The secretary or an assistant secretary is often the secretary of such committees. If not, the meeting selects its own secretary. The by-laws sometimes specifically declare that the secretary need not be a member of the committee. The common law rule that a majority of the committee constitutes a quorum for the trans-

action of business would prevail unless by-laws or other regulations make other provisions. The formal, and in important matters, the better method, of evidencing decisions of the committee is by resolution. A majority of a quorum decides questions unless the governing regulations provide otherwise. It is not uncommon to find that the by-laws prescribe that a majority vote of the entire committee shall be required to pass measures, or that the affirmative vote of all those present is necessary.

Records of Committee Meetings

Minutes of committee meetings should be carefully kept in books separate from the minutes of directors' meetings. In many instances particularly where an executive committee is authorized to conduct the corporate affairs, the by-laws specifically provide that the minutes shall be kept, and further require that the committee shall report its actions to the next meeting of the board of directors. The by-laws often include a provision that although the executive committee shall report its actions for the consideration of the board of directors, such actions of the executive committee shall nevertheless be binding on the corporation if the rights of third parties shall have accrued.

Committees, like the larger board of directors, must act at meetings as a *board*. They cannot act separately and individually.

CHAPTER VII

OFFICERS AND DIRECTORS

Distinction Between Officers and Agents

The action of the corporation is by acts of its officers, but not every act of an officer is the act of the corporation. The act of the officer must be expressly or impliedly authorized by the state statutes or the by-laws or by resolutions of the stockholders or the Board of Directors. Acts of officers not so authorized do not bind the company. In attempting to ascertain what acts are within the scope of authority of an officer, the law of agency applies; but a distinction must be noted between the representation of the corporation by an officer and by an agent. The act of the agent must be specifically referred to an express authorization to represent the company for a particular purpose, and the strict limitations of such authorization must not be exceeded.

Agency

The subject of agency is one of the oldest and best established branches of the law. It is fundamentally based on the old Latin maxim *Qui facit per alium facit per se* (whoever acts through another, acts by or for himself). Agency deals with the relations between the *principal*, or person who authorizes or directs the acts to be performed, and the *agent*, or person who performs the acts. The terms *master* and *servant* are not quite synonymous with principal and agent, as in the former relationship the servant is a mere automaton who does as he is directed by his master, whereas in the latter case the agent acts in the place and stead of his principal, and represents him. The relations between master and servant are therefore simpler and less complicated than the relations of principal and agent, although they are guided by identical principles of law. Obviously, the distinction lies in the fact that the agent has greater authority, express or implied, than has the servant. An agent or servant, either of whom is acting under the express or implied authority of someone else, should be carefully distinguished from an independent contractor, who is entirely free to act irrespective of the authority or orders of anyone. His liability is contractual only.

The relationship of principal and agent may be created in various ways. It is usually created by either express or implied contract. If by express contract, there must be a valid contract between the parties, recognized by the law. If the agency arises from an implied contract, there must be circumstances surrounding the relationship between the parties such as to imply that one is the agent of the other. There are also certain legal relationships which of themselves constitute one party the agent of another or of others, as in the case of partnership, where by "operation of law" one partner is the agent of all the other partners. The same is generally true of husband and wife. Agency may also be created when one party, entirely without authority, acts for another, who subsequently ratifies the act as his own. This is called ratification, and by the ratification, the party performing the act becomes the agent as of the time of the doing or performing of the act. To have proper ratification, however, there must have been some previous relation between the parties. The usual case of ratification is where an agent exceeds his authority and does something for his principal which, if not ratified, would be of no effect. Here there was a former relationship although no authority for the act in question and the subsequent approval of the principal is properly called ratification. In the absence of a former relationship, such a situation would be properly described as adoption.

Agency may be general or special. If the former, the agent is authorized to act for his principal in all respects in regard to his affairs, and the general agent will bind his principal in all dealings with third parties that can possibly be considered as coming within the scope of his authority. Obviously the scope of authority of a general agent is exceedingly wide. A special agent, on the other hand, is appointed for one particular and specific purpose or act only. Persons dealing with such an agent are bound to take notice that his authority is thus limited, and the principal is not liable to third persons who deal with a special agent who exceeds his authority.

The relationship of principal and agent may be ended either by the parties themselves or by the law. It is clear that the parties themselves, if capable of making an agency contract, are capable of making another contract to terminate it. Such terms may also be included in the original contract, such as limitation of time, etc. Revocation or renunciation is also, of course, possible. The law may terminate an agency, as in the case of the death of either party, bankruptcy, insanity, or other circumstances.

Principal and agent are liable to each other for the performances of such duties as would commonly be supposed. Thus, the principal must pay the agent the reasonable value of his services; if not otherwise stated, must pay his reasonable expenses, etc. The agent must render an accounting to his principal, must keep the principal's funds separate from his own and must use all due and faithful diligence in the performance of his duties.

A large portion of the great body of the law of agency is devoted to the liability of both principal and agent to third parties. This liability is of course a question which depends largely on the circumstances involved in each particular instance. In general it may be said that a principal will be liable to third persons for the torts and contracts of the agent while acting within the scope of his authority, while the agent may be held primarily responsible if he represents (without authority) that he is acting for someone else, or if he holds out that he is acting for an undisclosed principal.

The President

The general active management of the business is ordinarily conferred upon the president and it is his duty to see that orders and resolutions of stockholders and board of directors are carried into effect. Accordingly orders on all important questions pertaining to the conduct of the business should be issued by him, and he usually makes regular reports to the board of directors and receives their ratification or approval of his acts and submits a report at least once each year to the stockholders. The president is usually elected by the board of directors, in whom have been placed the chief managerial authority to be exercised for the benefit of the stockholders. His term of office is usually defined in the by-laws as "one year or until his successor shall be elected or qualify." Even in corporations of moderate size the president is compelled to delegate matters of relatively lesser importance to others in order that he may concentrate his attention upon problems of major importance.

Vice-President

The vice-president is usually authorized to assume the duties of the president during his absence or disability, and usually he assumes duties delegated to him by the president and is made responsible for an important department in the company's commercial organization. In the larger corporations provision is frequently made for several vice-presidents who are placed in charge of branches of the business, such as purchases, sales operations, etc. While the president

is engaged in the active performance of his duties, the vice-president has no corporate authority except that delegated by the president, but when the president is absent or unable to perform his duties the vice-president ascends to the president's position and exercises his full powers, until the president re-assumes his responsibilities.

The Treasurer

The treasurer is usually authorized to have the custody of the corporate funds and securities, to keep accurate records of receipts and disbursements in books belonging to the corporation, to deposit the corporation's moneys in banks designated by the board of directors, to disburse the corporation's funds, taking proper vouchers therefor and to render reports of his transactions and of the financial condition of the corporation to the president and the board. The treasurer is generally required to give a bond. It is his duty to see that interest is paid on bonds issued by the corporation and to mail dividend checks to stockholders, when payment of dividends to stockholders of record as of a specified date has been authorized by resolution of the board of directors.

Controller

The duties of the controller are as important as those of any of the corporation officers, yet due doubtless to the comparatively recent development of the position to one of great influence, the title and functions are frequently not officially designated in the by-laws of corporations where the high type of service rendered by the controller is recognized. The fact that the controller's functions in the corporate organization are relatively new accounts for the fact that the office is not mentioned in the state statutes relative to corporation officers. The great corporations that keep up to the minute in corporate practice are, however, amending their by-laws to make the controller an officer of the corporation and to fully define his important duties. If the office is not created by a covering provision in the by-laws, it is merely an executive position and is usually created by a general order of the president which describes the powers and duties of the position in detail. The controller is usually placed in charge of the corporation's accounts, and his responsibilities frequently embrace budgeting and budgetary procedure, and systems and statistics. His work touches the activities of all officers and executives of the corporation.

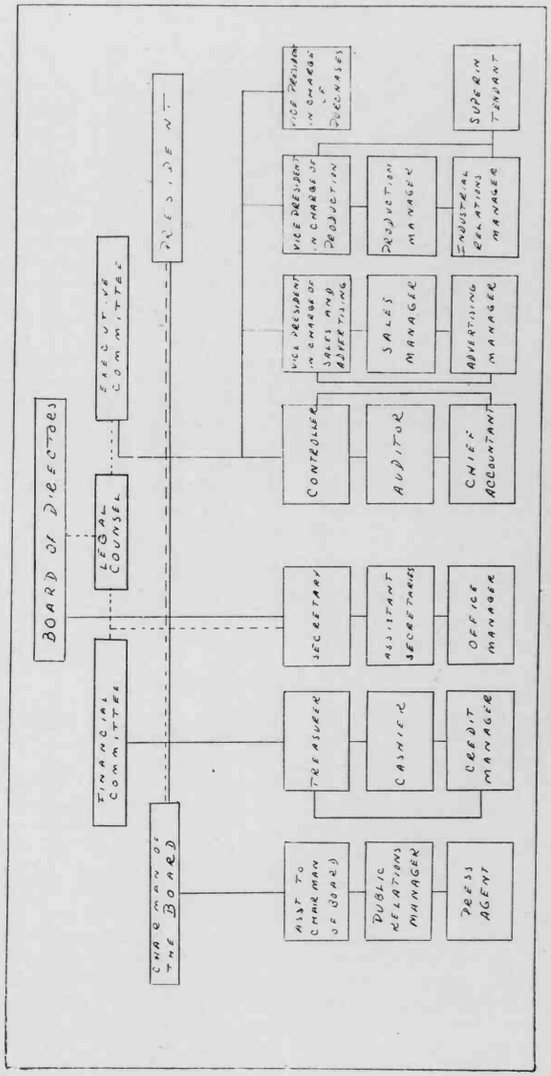


Fig. 12: Corporation Organization Plan

General Manager

Much confusion exists in respect to the nature of the position occupied and the authority exercised by the general manager. Sometimes the general manager is made an officer of the corporation, and as such is elected by the board. On the other hand, he is frequently put on the level of an important employee, in which case his responsibilities are sometimes confined to supervision of operations and manufacturing instead of the general business activities. In order to determine the scope of authority of the general manager in a given case, reference must be made to the by-laws, or resolutions of the board defining his functions.

The Secretary

The corporate duties of the secretary are to prepare for and attend all meetings of the stockholders and the board of directors, and to record the proceedings of such meetings fully in the minute books. He is required to attend to the giving of notices of all meetings of stockholders and directors. He must take an oath that he will faithfully perform the duties of his office. He is usually made the custodian of the corporate seal. In small corporations, where the minutes are prepared by the attorney for the corporation the duties of the secretary are often purely nominal, but in large corporations he is usually kept busy on corporate matters, although he is sometimes given charge of a phase of the company's commercial work.

Corporation Organization Plan

The chart shown in Fig. 12 represents the organization scheme of an industrial corporation doing a very substantial business and having a large number of stockholders. The corporation has occasion to do considerable capital financing, justifying the establishment of a financial committee, which in respect to long and medium term issues works closely with the treasurer. A number of the members of the board of directors do not give their time to the corporation's business activities, and therefore the executive committee is composed of officers responsible for particular branches of activities. The controller and the vice-presidents in charge of advertising and sales, of production and of purchases, work closely with the executive committee. The treasurer supervises the work of the cashier and credit manager. The controller supervises the work of the auditor (an arrangement which has been subject to some criticism) and of the chief accountant.

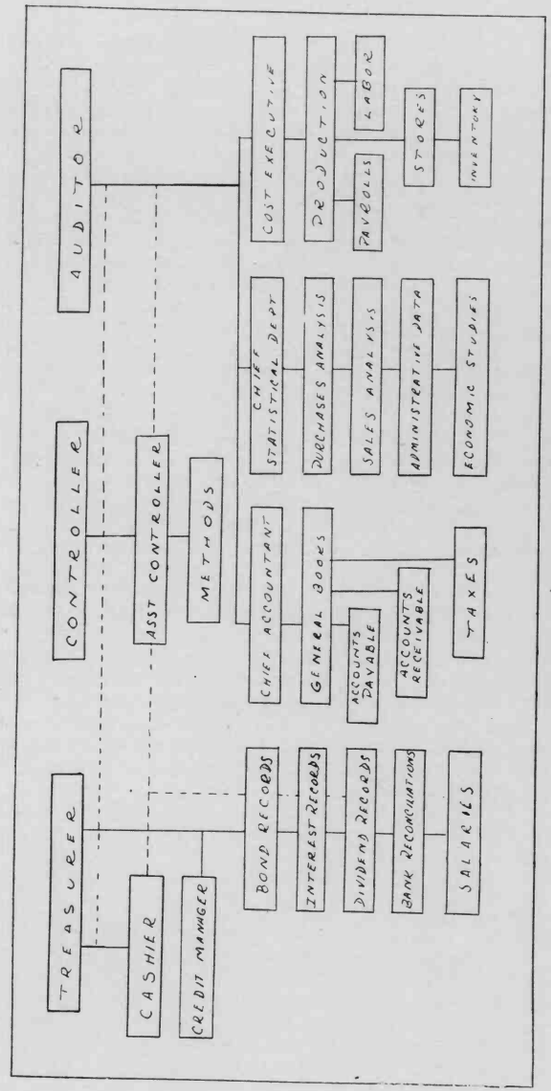


Fig. 13: Accounting Organization

Accounting Organization

The chart shown in Fig. 13 shows the accounting organization of a large industrial corporation. This exhibit was chosen from a numerous selection because of its embodiment of certain typical features, and because of its consequent value, in view of the limitations of space, from the standpoint of illustration. The chart shows that the treasurer, controller and auditor have each an independent authority. In this respect it varies from many organization schemes, whereunder the controller is made responsible to the treasurer, or the auditor to the treasurer or to the controller. Theoretically it would seem as if the independent jurisdictions indicated by Fig. 13 are proper. The controller is responsible for methods of all departments, and for accounting and statistical work. He supervises the work of the chief accountant in charge of the general books and taxes; of the chief of the statistical department in charge of analysis of results in various departments and of economic studies; of the cost executive in charge of payrolls, labor distribution, stocks and inventories. The treasurer is responsible for cash, credits, bond and interest payment records, dividend payment records, bank reconciliations and salaries. He supervises the duties of the cashier and credit manager and of the employees engaged in interest and dividend payment work, bank reconciliations and salaries. The auditor checks the records kept by the treasurer and the accounts supervised by the controller for accuracy.

A comparative examination of a number of organization plans of accounting departments of corporations of different sizes and kinds shows conspicuous dissimilarities as to size of staff and distribution of functions under different designations and titles of supervisors, suitable to the particular circumstances.

Directors

Directors as Fiduciaries

After the election of the directors by the stockholders, the directors become vested with the chief powers of management and they cannot be interfered with by the stockholders during their tenure of office in the exercise of these powers as long as they act carefully and faithfully. The directors are not regarded as recipients of delegated powers from stockholders but as having powers inherently incident to the office. The legal status of the trustee has been the

subject of much controversy in the courts, but it is generally agreed that the position occupied by the directors in relation to the stockholders is that of a fiduciary, similar to that attaching to an express trusteeship. It should be noted, however, that by the weight of authority directors cannot be held as trustees for the benefit of creditors while the corporation is solvent except in respect to liability for impairment of capital, as by declaration of a dividend that has not been earned. In case of insolvency, however, the directors become trustees for creditors and must take care to see that assets are safeguarded for the proper distribution among the creditors.

Good Faith of Directors

In their dealings directors must not obtain personal benefits, but act entirely for the interests of the corporation, and any profits accruing to directors from any corporate transaction will belong to the corporation, and their possession of such profits will be considered to be that of trustees.

Powers Defined in Statutes and Charter

The general management of the property and affairs of business corporations is, pursuant to the statutes of all the states, entrusted to the board of directors. Ordinarily the statutes do not particularize further respecting what powers the board may exercise. Occasionally, however, the functions are set forth in more detail, as for instance, by declaring that the directors shall exercise the powers of the corporation; make, alter, and repeal by-laws; adopt a seal; fill vacancies in the board of directors; appoint committees; elect officers; make reports; keep records; and perform other miscellaneous functions. Other provisions of the corporation laws may prescribe the specific duties to be exercised by the board of directors, but the general theory of corporate law is that the stockholders elect the directors, and the directors, acting as a board, manage and direct the corporate affairs. The certificate of incorporation or charter may also contain a clause to the effect that the powers of the corporation are vested in a board of directors.

Powers Defined in The By-Laws

The by-laws are apt to be a repetition, or a substantial repetition, of the statutory provisions, and to declare that the business and affairs of the corporation shall be managed and controlled by a board of directors. Not uncom-

monly a more detailed enumeration of the powers is embodied in the by-laws. Usually the detailed enumeration follows the general clause and provides that, without prejudice to the general powers, the directors have certain specific functions, such as adopting a seal, making the by-laws, purchasing property, rights and privileges for the corporation, and paying therefor in money or by issuing bonds, notes, stocks or other securities of the corporation; borrowing money and executing mortgages or pledges; electing and removing officers, whether executive or subordinate, and determining their duties and salaries; determining what persons shall sign checks, negotiable instruments or documents on behalf of the company; appointing committees whether standing or special, and delegating authority to them; declaring dividends, and rendering reports. The general duties of the board of directors are usually contained in one of the main subdivisions or articles of the by-laws. It is necessary, however, or at least advisable to search the entire document, as other duties to be exercised by the board of directors are often unavoidably placed in connection with other subject matter.

Qualifications of Residence and Shareholding

The eligibility of persons for the office of director and the qualifications which they must possess have been made the subject of statutory regulation in nearly all the states. The requirements are far from uniform. Some statutes specifically require that one or more of the directors shall be citizens or residents of the state of incorporation; other states do not make that requirement by law, but leave the matter to be dealt with if desired in the charter or by-laws. The next most usual qualification set forth in the law concerns the necessity of a director being a stockholder. Many states require that directors shall be holders of at least one share of stock in the company; other states require the holding of a larger proportion of the stock, with the apparent idea that such provision will tend to eliminate dummy directors. A variation or broadening of the stockholding qualification is found in the permission granted by some laws that persons holding stock in another corporation which in turn owns stock in the company in question are eligible to the office, although such persons do not own any stock in the company in question. The corporation laws of some states insist on a stockholding qualification, but leave the necessary amount thereof for determination in the charter or by-laws. Some statutes specifically declare that a person ceasing to be a stockholder shall cease

CHART OF USUAL DUTIES OF TREASURER, IN COMPANIES OF MORE THAN AVERAGE SIZE.

1. Custody of funds.
2. Custody of corporation-owned securities.
3. Control deposit and withdrawal of such securities from safe deposits.
4. Receive moneys paid to the corporation.
5. Collect moneys owed to the corporation.
6. Issue receipts for payments to corporation.
7. Open accounts with banks designated by the board.
8. Deposit all corporation funds received by him in such banks.
9. Endorse for deposit or for collection checks, drafts, vouchers, notes or other obligations payable to the corporation.
10. Pay by check or otherwise vouchers, payrolls, drafts and other accounts payable (sometimes the condition is imposed of approval by controller or auditor.)
11. Make disbursements directed or authorized by the Board.
12. Make disbursements of dividends.
13. Make disbursements of interest.
14. Draw checks against corporation funds on deposit (usually the condition of a countersignature is imposed.)
15. Sign, with the president or other officer designated in the by-laws, bonds, bills of exchange or promissory notes of the company.
16. Keep records of his receipts and disbursements of corporate funds.
17. Render reports of receipts and disbursements as required by the Board.
18. Render reports and statements of cash and security accounts to the Board.
19. Hold his official records open for inspection by directors.
20. Give bond for a sum fixed by the Board.

Fig. 14: Usual Duties of Treasurer

to be a director. On the other hand, a number of states have taken the opposite legislative view, and declare that directors need not be stockholders unless such requirement is inserted in the charter or by-laws. As a rule, the by-laws repeat the statutory requirements on the subject, thus putting into the internal corporate regulations at a place where it serves as a ready reminder a statement of the qualifications necessary to a candidate for election as director. (For directors' qualifications of residence and shareholdings in a specific state, see Section IX.)

Limitations as to Number of Directors

The statutory provisions of a large majority of the states fix a minimum number of directors, often three, as the number required to manage the corporation. Some states, on the theory perhaps, that a board of directors limited in size is apt to be more efficient than a larger body, fix a maximum as well as a minimum number. The number fifteen has been selected as a maximum in some states. It is usual for the statutes to require that the number selected by the incorporators shall be stated in the certificate of incorporation. In a few instances the statutes leave the designation of the number of directors to be stipulated in the by-laws. It is a customary statutory requirement that the charter shall set forth a number of persons who shall constitute the board of directors; and often, pursuant to statutory requirements, the charter specifies the names and addresses of the directors who are to hold office for the first year until their successors are elected by the stockholders. The by-laws almost invariably specify the number of directors who shall constitute the board. The determination of the number of persons to make up the board is, of course, a practical matter. On the one hand, various financial interests in the corporation are very properly recognized as being entitled to representation, or the backing of certain men is sought because of their influence or breadth of vision or because it is desired to have a number of diverse, even if inexpert, points of view represented on the directorate. On the other hand, the larger body is harder to assemble, slower and less decisive in action. The larger body usually appoints a small executive committee which may thereupon become the real practical managing influence in the corporation. (For requirements as to number of directors in a particular state, see Section IX.)

Classification of Directors

Classification of directors is permitted by a substantial number of states. That is, the laws provide not only that

the directors may be elected annually, but that if the charter or by-laws so prescribe, the directors may be classified within definite limitations by electing a certain portion of the entire board each year and having the terms of office of each class extend for several years. For example, a board of nine directors might be divided into three classes of three persons each; class A being elected for one year, class B, for two years, and class C, for three years, each class to be thereafter elected for the term of three years. The advantage of the arrangement is said to be to give stability to the corporate management, and to enable greater attention to be given to securing good men each year by reducing the number to be chosen. Obviously the greater the number of classes, the greater the stability. On the other hand, the disadvantage is that the majority of stockholders for the time being may not be able to get their policies adopted, and the effect of a gradual change of policy may be to render the management hesitant and undecided. Another form of classification is by giving to designated classes of stock, for instance, the preferred and the common, the right to elect a certain proportion of the directors.

Oath of Office

An oath to discharge faithfully the duties of the office of director is a requirement but seldom found in respect to ordinary business corporations. In respect to certain classes of corporations, notably banks, the requirement is usual. The oath when demanded by the statutes or the by-laws, should be administered to the directors before they actively take up their duties. The ordinary form of oath is a brief statement that the director swears faithfully to discharge the duties of his office, to the best of his ability. That is, in fact, nothing beyond what the director in effect promises to do by the very acceptance of the office; and the oath is little, if anything, more than a brief statement of the common law duties which a director undertakes on assuming the office. Possibly its object and its effect are to intensify the directors' sense of responsibility. Nevertheless, if the statutory provisions of the state, or the by-laws, declare that the directors shall take an oath, compliance is imperative. The oath should be filed among the corporate documents. The statutory provisions of the state may prescribe that the oath be filed in a designated public office. If so, the requirement must be complied with. Failure to take the oath or to file it may be mere irregularities if the director in fact assumes the office and acts as a director; but such irregularities give a basis for controversy and litigation which may well be avoided.

Term of Office

The term of office of the directors is, under the usual statutory enactment, joined with the provisions respecting the required number of directors. That is, a typical statutory phrase reads that "the board of directors shall consist of not less than three persons, who shall be elected annually by the stockholders, and shall hold office for one year, and until their successors are appointed and qualified." The statute sometimes declares that the term of office of the directors shall be set forth in the certificate of incorporation, and, whether or not the statute is mandatory in that respect, it is usual to find the legislative enactment repeated both in the charter and in the by-laws. Where the law permits classification of directors, the term of office of each class to extend for several years, that arrangement, if adopted, is as a rule repeated in the charter and in the by-laws.

The eligibility, number to be elected, and term of office of the directors being fixed in the statutes, charter or by-laws, the actual election is effected by the stockholders upon notice of meeting, holding the meeting, and voting thereat in the manner heretofore explained.

Action Must be Taken as a Body

As to the actual determination of questions, it is the well established doctrine that the corporation is governed by a *board* of directors, and not by the *individual* directors. Directors are called on to meet together, discuss and decide; the officers execute the orders of the board. Even if the different directors acting separately agree on a certain course of conduct, that is not the decision of the board, and is not proper corporate action. The courts have made a few exceptions, as for instance, where by long established custom, the directors have been permitted to make decisions without meeting officially or where it was customary in the business for the directors to act informally. Exceptions, however, do not make safe guides. The directors cannot act by proxy.

Compensation of Directors

The broad general rule in reference to compensation for directors is that no compensation is payable to a director for services as such. The better rule to keep in mind, however, is longer and more complex. It may be stated to be: In the absence of a contract modifying the rule, a director is not entitled to compensation for the ordinary services of a director, but if he performs extraordinary services for

CHART OF USUAL DUTIES OF CONTROLLER IN COMPANIES OF MORE THAN AVERAGE SIZE

1. Prescribe the system of accounting.
2. Have charge of General Accounting books and records.
3. Supervise methods of books and records of which he has not immediate charge.
4. Receive reports from all corporate officers or agents who are authorized to disburse corporation funds.
5. Maintain records of the company's personal property.
6. Receive reports from custodians of company's personal property.
7. Approve payment of vouchers, payrolls, drafts, when authorized by the president or other person designated by the president or by the Board.
8. Countersign warrants drawn by treasurer for deposit or withdrawal of securities.
9. Countersign checks for money drawn by the treasurer.
10. Audit treasurer's funds and securities.
11. Audit secretary's books and papers.
12. Have charge of statistical work and records.
13. Prepare such periodical and special financial statements as the executive officers of the corporation or the Board of Directors may require.
14. Have charge of the budget procedure.
15. Prepare forecasts of future financial position.
16. Approve any form of any kind before adoption for use by any department.
17. Cooperate with superintendent in study and reduction of operating costs.

Fig. 15: Usual Duties of Controller

his corporation beyond the scope of his ordinary duties as director, and if such extraordinary services were rendered under an express contract for payment or under circumstances in which it is reasonably to be implied that payment was to be made, he will be entitled to compensation. The rule just stated draws a line of demarcation between the ordinary and extraordinary services. The line is a shadowy guide in a considerable number of instances. Duties which fall within the category of ordinary duties of a director are often evidenced by statutory obligations, obligations specifically enumerated in the by-laws or to be implied from the function of general direction and the management of the corporate affairs, custom in general, and custom within the particular corporation. Duties involving particular, individual, skilled and onerous services are commonly held to fall within the category of extraordinary services. An example, frequently mentioned, is that of acting as attorney for the corporation.

Ordinary Services

Ordinary services, as has been indicated above, may be compensated if an agreement exists therefor. Without going into any possible exceptions due to peculiar statutory enactments or by-laws specifically permitting directors to make by-laws and to vote salaries, it may be stated as a general rule that directors cannot vote themselves compensation for their services as such. A by-law or a resolution of the stockholders should be the foundation of the right. The most usual, and commonly the only, compensation which directors receive as such is a fee for attending directors' or committee meetings. Such a provision is embodied in many of the by-laws of the moderate-sized and large corporations. Such a by-law should be carefully phrased to show, without ambiguity, whether the fee stated is for each director who attends, or is a lump sum to be divided among those who attend, or includes regular and special meetings, and adjourned meetings. Traveling expenses are often separately awarded to directors who come from a distance. An examination of a considerable number of by-laws indicates that a not unusual fee is twenty dollars per meeting.

Extraordinary Services

Extraordinary services are compensated on analogous but not precisely the same grounds. The directors' right to compensation may arise in various ways. Thus, the directors may pass a resolution authorizing one of their number to perform certain services at a stated compensation. The interested director should not vote on the resolution, nor should his presence be counted to make up a quorum authorizing the director to act on the resolution. If the interested director's vote is necessary to pass the resolution or even if his presence is required to make up a quorum, the law in some states is that the contract resulting therefrom is absolutely void, and in other states, that it is voidable. The resolution of the directors, especially if followed by an agreement for the services and compensation, represents an express contract. Unless unreasonable in character or in the amount of compensation it would be sustained. Another somewhat typical example of circumstances authorizing a director to receive compensation for extraordinary services might arise merely from the fact that the director went ahead and performed onerous services beyond the scope of his ordinary duties as a director, and the circumstances were such that it should be reasonably assumed the corporation understood he expected payment. For instance, a director, being a skilled accountant might have audited the books for many years and received payment regularly. On making the audit on the occasion in question with the knowledge of the corporation it would be reasonable to imply that the corporation expected to pay and that he expected to receive a reasonable compensation.

When directors award compensation to each other the allowance must be honest and fair and the compensation reasonable. In the event of controversy the court scrutinizes the transaction with care.

Resignation of Director

A director of a corporation may resign at any time. This is true although the statutes, charter or by-laws declare that his term of office is for a year and until his successor is appointed. Occasionally statutory provisions expressly recognize the right to resign; but more frequently the subject is dealt with in the by-laws. Such by-law provisions are drawn with various degrees of particularity. They may be detailed, as for instance, by declaring that the directors have a right to resign at any time by providing for written notice of resignation and designating the official of the company or of the board to which it should be presented, by stating that the resignation is to take effect at the time specified therein, or if not specified, then to take effect immediately, and by asserting that an acceptance of the resignation is not necessary to make it effective, unless it is therein expressly stated that such acceptance is essential. If the

subject is covered in a detailed way in the by-laws, the requirements thereof should as a matter of good practice be complied with. Not uncommonly the provisions governing resignations are set forth by a mere general statement to the effect that the directors shall have the right to resign at any time, and that acceptance by the board of directors is not necessary.

Manner of Resignation

In so far as the subject of resignations is not expressly governed by the statutes or by-laws certain general principles should be kept in mind. First, the resignation should be in writing. Although an oral resignation is valid, the fact that it was given and its terms, conditions, and surrounding circumstances may constitute a cause for later controversy with the corporation or with the stockholders or creditors. It is not essential that the reasons for the resignation be stated. Second, the resignation should be dated and drawn either conditionally or unconditionally. An unconditional resignation is one that states that the director resigns at once or as of a certain future date. Such a resignation requires no acceptance. A conditional resignation is one so drawn that the director states that he resigns upon acceptance by the board of directors. Such a form, as its terms imply, requires an acceptance by the board of directors. Speaking generally, the resigning director remains in office subject to the duties and liabilities of the position until the board accepts. Therefore, if a director disapproves of a proposed action by the board and believes that his continuance in office may entail liability on his part which he cannot avoid by merely protesting against such action, he should not use the conditional form of resignation. Third, the resignation should be presented to a proper official of the board or of the corporation. At times this matter is prescribed in the by-laws as by requiring that the resignation shall be presented to the chairman of the board of directors or to the president or to the secretary. If not, it is essential nevertheless that the resignation shall actually be conveyed to the board. As a matter of good practice, the secretary or other officer should notify the resigning director that his resignation has been accepted or received.

Vacancies Arising From Stock Transfer

As has been stated, ownership of stock in a corporation is, in a substantial number of companies, made one of the qualifications of holding the office of director. Supplementing that qualification, whether it appear by statute or by-

SUMMARY OF POINTS OF NOTABLE INTEREST PERTAINING TO THE BOARD OF DIRECTORS.

1. Directors exercise chief powers of management of the corporation, by virtue of authority inherent in the office and not as recipients of powers delegated by stockholders.
2. Directors occupy a fiduciary relation to stockholders and the corporation similar to that incident to an express trust; profits accruing to a director from any corporate action belong to the corporation.
3. Detailed enumeration of specific powers are sometimes contained in statutes and by-laws which should be carefully consulted for definitions of authority.
4. The state laws prescribe qualifications as to residence and stockholding and regulations as to number of directors, classification and term of office. (See Section IX.)
5. Directors must act at formal meetings as a board and their individual decisions, without meeting, do not constitute proper corporate action. A director cannot act by proxy.
6. Important action taken by board should be incorporated in a resolution which should be prepared with great care.
7. Directors are not entitled to compensation for their services other than fees for expenses granted by by-laws or resolutions for attending meetings, except in case of performance of extraordinary services in respect to which proper authorization and agreement to compensate is expressed or may be implied.
8. A director may resign at any time. Statutory or by-law provisions regulating tender of resignation and acceptance should be complied with. In general, the resignation should be in writing, dated, be drawn conditionally or unconditionally and presented to a proper official of the board or of the corporation.
9. A director may become disqualified for office by selling his stock (if stockholding is a necessary qualification) or because of his personal interest in the matter in respect to which the board is to take action; or he may be temporarily disqualified in each of two corporations who are parties to a contract.
10. To remove a director requires some statutory authority (which seldom exists), a clause in the certificate of incorporation or by-law provision passed by the stockholders; or if sufficient grounds (such as bad faith) exist, the common law rule applies that the director is entitled to notice, opportunity for defense and a hearing.
11. If a vacancy occurs on the board, the incomplete board can conduct business, provided a quorum of the complete board can be assembled, provided full membership is not prescribed for taking such action.
12. Vacancies are permitted by statute of a number of states to be filled by the remaining directors provided they constitute a quorum, although the necessity for a quorum is waived in a few states. Where a quorum is essential to fill a vacancy and it cannot be assembled, a stockholders' meeting must be called to take the necessary action.
13. If the number of directors is stated in the certificate of incorporation, an amendment of the certificate of incorporation will be necessary to increase the number of directors.
14. In connection with all action taken by the board relating to or affecting property, real or personal, of the corporation or debts due or owing by the corporation or contracts, powers, choses in action or other instruments pertaining to the corporation, copies of resolutions should be supplied by the secretary to the chief accounting executive regardless of whether the accounting executive happens to be a member of the board.

Fig. 16: Points Pertaining to Board of Directors

law, is often found a provision to the effect that a transfer by a director of his stock operates *ipso facto* to create a vacancy in the office. Just what constitutes a transfer of stock within the meaning of this provision has been the subject of some debate in judicial opinions. It is not unreasonable, however, to adopt the reasoning that, since the ownership of the stock is a qualification for the position on the theory that it gives the director an interest in the corporation, so also when his agreement for sale or sale has progressed to a point that his interest is no longer that of owner of the stock but is that of a creditor of the purchaser, then he becomes disqualified for incumbency although the stock may still be registered in his name. Up to that point, however, the director is still qualified to hold his position and act for the corporation. In brief, it would seem that the general or beneficial ownership should be the test. A well considered decision has permitted the amendment of a certificate of incorporation so as to disqualify a director who was a director of a competing and antagonistic concern; but the same decision held invalid an attempted amendment to disqualify a director if he was a mere stockholder, agent, employee, attorney, creditor or beneficiary in a competing company, or if a member of his immediate family was directly or indirectly interested in the rival organization as owner, partner or stockholder.

Disqualification Arising from Personal Interest

A director may, as has been discussed in a preceding paragraph, become temporarily disqualified when the matter before the board concerns his personal interests; and this disqualification extends both to counting him to make up a quorum and to counting his vote on a particular proposition. Sometimes a by-law is to be found to the effect that a director may be interested in a contract or transaction with his company provided the contract or transaction be approved or ratified by the affirmative vote of a certain number or proportion of the directors.

Serving as Director in Two Corporations

Temporary disqualification arises also when a director in one company is also a director in another corporation with which the first company is making a contract. The contract made under such circumstances is void according to the law of some states, and voidable according to the law of others. Especially among the larger corporations this reason for disqualification is often removed by a by-law reciting that as the directors of the corporation are men of large and

diversified business interests connected with other corporations, contracts between the company and other corporations in which a director is interested shall not be affected by the joint interest of a director, provided there shall be present at the meeting a quorum not so interested.

Removal of Director

It would be unsafe to lay down any general rule in regard to the removal of directors from office. It is a basic principle of law that the corporation shall be managed by a board of directors, and that the directors shall be elected by the stockholders usually for the term of one year. Accordingly the law may be said to be adverse to their removal. Nevertheless conditions may arise making it advisable to remove a director, as for instance, where his presence on the board and his right to inquire into the corporate affairs is being used to the detriment of the company which he is supposed to serve. A director may, of course, exercise his honest discretion even though it be opposed to what all the other directors believe to be clearly the proper policy. When, however, a director does not exercise his honest discretion or is not acting in good faith, such a situation should, and probably would, justify his removal by taking proper legal steps—sometimes a tedious proceeding.

Statutory and Charter Grounds for Removal

If it seems best to attempt to remove a director rather than to await the end of his term of office before getting rid of him, some authority for removal should first be sought in the statutes. It is seldom, however, that statutory authority exists. The statutes of most of the states fail to specify powers of removal. A few give such authority to the stockholders, usually requiring a large proportion of the stock to effect such removal. It is very unusual, but not, of course, impossible for the statutes to grant authority to the board of directors to remove one of their number. When authority for removal is found in a statute it becomes a matter of construction of that statute as to whether it authorizes removal in the absolute discretion of the qualified body or requires a hearing. Unless the statute clearly grants an absolute discretion it would seem that the common law principle would apply; namely, that before removing a man from his office he should be given due notice, a reasonable opportunity to prepare and to be heard, with final decision reserved for, and to be exercised in good faith by, the body possessing the right of removal.

Very occasionally the subject of removal is brought into the certificate of incorporation. If so, the power emanates from the incorporators or stockholders and it again becomes a question of interpreting the applicable clauses to ascertain by whom, when, and in what manner, the power of removal must be exercised.

By-Law Grounds for Removal

If the power of removal is discovered at all in the governing regulations, it is most frequently found in the by-laws. The by-law granting the authority should be one which has been duly passed by the stockholders. A by-law passed by the directors authorizing the board to remove one of their own number would be invalid. Most by-laws governing the question provide for a special meeting of stockholders and the affirmative vote of a considerable portion of the stock to effect a removal. Although the by-law grants absolute discretion to remove a director without a hearing, there would seem ordinarily to be no objection to having the board of directors give a preliminary hearing to the accused director to afford him an opportunity, if he desires to avail himself of it, of presenting his side of the matter so that at the stockholders' meeting both points of view may be presented.

Right to Remove Director at Common Law

In the absence of statute, charter, or by-law provisions, the right of removal must be governed by the common law on the subject. In brief, the weight of authority may be said to be that the stockholders have the inherent right to remove a director for cause, after notice, opportunity for defense, and a hearing. The board of directors does not have inherent power to remove one of its own number. A word of precaution is advisable, however, in respect to the board statement in the preceding sentence, because a number of decisions, after stating that the directors do not have the right to remove one of their own number, add the remark, "at least without cause." At all events, in the absence of governing regulations on the subject, the board of directors, feeling that a fellow director has given cause for his removal, would be well advised to call a special meeting of stockholders to determine the matter.

Filling Vacancies in the Board

When a vacancy occurs in the board of directors, the question of how it shall be filled naturally arises. A

vacancy renders the board of directors incomplete, but unless some proposition comes up for attention requiring the action of the entire board, the incomplete board, provided it can assemble a quorum, may conduct business with the same effect as though the board were complete. As heretofore stated, a quorum of the board means a quorum of the complete board and not a quorum of the board as reduced by vacancies. The method of filling vacancies in the board of directors is usually prescribed in the statutes. Perhaps the most common provision is to the effect that vacancies occurring in the board shall be filled by the remaining directors provided they constitute a quorum. Such a provision would necessitate a stockholders' meeting to fill vacancies if sufficient vacancies occurred to prevent the assembly of a quorum of the board. To meet that very difficulty some statutory provisions authorize a majority of the remaining directors, even if less than a quorum, to fill vacancies. Some statutory enactments merely leave the whole matter for inclusion in the by-laws. The statutory provisions are at times carried, in effect, into the charters of corporations by including among the powers granted to the directors the power to fill vacancies occurring in the board.

By-Law Regulations Governing Vacancies

With a large degree of regularity the by-laws include in the article relating to the powers of directors the authority to fill vacancies. Of course, the by-law provision must comply with the statute, and ordinarily it is a mere repetition or amplification of the statute, and grants the power to fill vacancies either to a quorum of the entire board as it should exist without vacancies, or to a majority of the remaining directors even though less than a quorum. Provisions are to be found in the by-laws of some corporations with different classes of stock giving the directors representing particular classes the right to fill vacancies occurring in those classes.

Almost, if not quite invariably the director thus elected to fill a vacancy holds office for the unexpired term of his predecessor and until his successor is elected and qualified.

Most often, the actual election is informal, and is evidenced either by a resolution reciting the vacancy and the nomination and election of a successor to fill that vacancy, or by a mere statement to that effect in the minutes. In the event of a controversy candidates should be nominated, and the voting conducted with due regard to parliamentary prac-

tice or to the particular by-laws or regulations, if any, governing such matters.

If the statutes, charter, or by-laws do not grant authority to the directors to fill vacancies the directors do not possess that power. The filling of vacancies must then be left to the stockholders either at a special or a regular meeting.

After the corporation has been organized with a definite number of directors, that number may be increased or decreased in the manner provided by law. The number of directors is usually required to be stated in the certificate of incorporation, and, logically, if that number is to be changed, it would seem appropriate to amend the certificate of incorporation in that respect. And such is, in fact, the procedure required by a number of states.

Functions of Committees

Committees do much of the work in the larger and medium-sized corporations. The reason for appointing committees is a practical one, and the advisability of having a governing or an executive committee is a practical question. In general, the reasons for having such committees are that a large board of directors is hard to assemble, and, through lack of knowledge of its members in respect to the particular business or line of business, may prove slow in its deliberations, and may require detailed information before acting. On the other hand a small committee, of say three or five members, is easy to assemble, may hold meetings frequently, or whenever anything turns up requiring immediate attention. The small committee is also selected for its knowledge of its business, and has the advantage in efficiency characteristic of a small unit; that is, the members can sit around and discuss the matter in hand entirely informally and without the restraint in expressing themselves, which some men feel in the presence of a larger assembly. For this reason, the president's knowledge of the business is utilized by making him a member, sometimes *ex officio*, of important committees. Efficiency is usually promoted by having the secretary of the company or an assistant secretary act as secretary of important committees, unless the committees are so numerous and active that such officials find the demands on their time too great.

Disadvantages of Executive Committee

The reasons against governing or executive committees are that they tend to take into their hands the entire management of the corporation, in effect doing away with the board of directors, and often eliminating some of the interests or some of the general business ability represented by the larger body. Some precaution can be taken against the exclusion of particular interests by requiring that the governing or executive committee shall be appointed by such a proportion of the whole board of directors that all the interests may be represented, and by further requiring that the committee itself cannot take action without the affirmative votes of say, a majority of a whole committee. Reports to the board of directors tend to draw responsibility back to the larger body. The membership of the president on the committee augments his powers, but on the other hand the president represents at least a majority vote of the entire board of directors. In corporations with small boards easily assembled the executive committee is often deemed unnecessary in practice. It sometimes operates partially to exclude the board of directors from their proper management of the business. The smaller and more expert in the business the board of directors is, the less reason exists for an executive committee.

Committees Appointed by Stockholders

The stockholders elect the board of directors. The board of directors is, in effect, a standing committee having broad powers in the management of the property, business and affairs of the company. The powers and duties of the board of directors are defined in the statutes and the charter and are amplified by the by-laws and sometimes by the resolutions governing the board. Stockholders may appoint other standing committees, as, for instance, a nominating or an auditing committee; and they may appoint special committees to give consideration to particular problems and safeguard the stockholders' interests therein, as for instance reorganization committees.

Committees Appointed by Directors

The directors usually appoint such committees as may be necessary or desirable for carrying on the business of the company. Infrequently the president is given that power by the by-laws. The appointment of committees by the board of directors is, in a sense, a delegation of the powers of the board, yet the weight of authority permits such a committee to exercise the full powers of the board, even those of discretionary nature, so far at least as is involved in carrying on the ordinary business of the company. The directors cannot, however, by appointing committees escape their fundamental obligations of due care in the management of the property and business of the company.

And it has been held that even the executive committee with full powers of the board cannot exercise extraordinary powers. Furthermore, certain powers are by the statutes of the states specifically reserved to the directors, as for instance, the declaration of dividends. The power to appoint committees may be specifically given by the statutes. If not, it is the weight of authority that such power inheres in the board of directors as an incident to the carrying on of business. It is not uncommon to find in the by-laws a provision declaring in general terms that the directors may by resolution delegate any power not expressly required to be exercised by the board and may refer any matter to a committee or committees with full power to act for the board or to investigate and report to the board. In the by-laws may also be found, at times, a requirement that the directors shall appoint an executive committee at their first or organization meeting after their election by the stockholders.

Classification of Committees

The committees appointed by the directors are often classified into temporary and standing. Temporary committees are usually appointed to investigate and report, and are discharged at the termination of their work. Not uncommonly statutory provisions authorize the appointment of standing committees and, as a rule, they are provided for in the by-laws, which prescribe their composition and their powers and duties. As stated, a statute or a by-law giving the directors a general power to appoint standing or temporary committees is not unusual. Where there are several standing committees their respective powers and duties should be defined and should be so distinct that conflict between, or overlapping of functions shall not result. The most common standing committee is the executive committee. Others which may be provided for are the financial, auditing, investment, and sinking fund committees. Of the foregoing committees the executive is almost always superior to the others.

Powers of Executive Committee

The executive committee is usually given all the powers of the board of directors between the meetings of the board; in other words, its functions are to guide the ordinary business policies and the management of the corporation subject to the board. Sometimes the by-laws or resolutions enacted by the board of directors place restrictions on the powers of the executive committee, as, for example, by forbidding

the committee to appoint officers, fix their compensation, or to incur obligations on behalf of the company exceeding a stated sum. At times the directors feel that a more specific enumeration of duties is desirable or will obviate conflicts with other committees. At least within the scope of matters involving the ordinary management of the business, the acts of the executive committee having the powers of the board of directors are of the same effect as acts of the board. The executive committee must necessarily be under the control of the board, and probably if the board overrules the committee before the rights of third persons have accrued the act of the executive committee would not be held binding. In some instances the by-laws declare that the act of the executive committee shall be binding on the corporation where the rights of third persons have accrued thereon. The committee cannot delegate its discretionary powers to one of its members. The acts must be the acts of the committee as a body. The powers and duties of other committees, if any, are usually more carefully defined in the by-laws or are made subject to specific enumeration by resolution of the board of directors.

Membership of Committees

Committees which exercise any of the powers of the board of directors must be composed of members of the board. The chairman of the board of directors and the president, being members of the board, are at times made *ex officio* members of the executive or other committees. The treasurer is usually made a member of the finance committee if such a committee exists. The term of office of a committeeman is usually fixed at one year and until a successor is appointed; sometimes the term of office as committeeman is during his term of office as director or until a successor is appointed.

Vacancies occurring in the committees are filled, pursuant to most of the by-law provisions, by the board of directors, sometimes a majority vote of the entire board being required rather than a mere majority of a quorum at a meeting. Occasionally the committee itself is given power to fill vacancies temporarily or until the board of directors acts. Officers, when made *ex officio* members, succeed to their membership on committees by virtue of their offices without further action by the board or the committee.

SECTION THREE
CORPORATE RECORDS AND ACCOUNTS

CHAPTER VIII

THE CORPORATE ACTIVITIES RECORDS

The records of the corporation may be grouped under two classifications; first, the corporate activities records which are necessitated by and relate to those proceedings and transactions incident to its legal corporate status; second, the general or financial books of account which, as in the case of the proprietary forms of organization, the corporation maintains for the recording of all financial transactions. An enumeration of the principal corporation books and records, according to this grouping embraces:

1. Corporate Activities Records: Minute Book, Stock Certificate Book, Installment Book, Stock Register, Stock Ledger, Dividend Book and Bond Record.
2. General or Financial Books of Account: Cash Receipts, Cash Disbursements, Sales Journal, Purchase Journal, General Journal, General Ledger, Customers' Ledger, Creditors' Ledger, Notes Register, etc.

As will be apparent from subsequent discussions there is a constant interrelation between these two classes of records. Some phases of interrelation are sometimes lost sight of in the smaller corporations, but they are usually recognized and carefully provided for in the accounting procedures of the larger companies.

Statutory Regulations

There are no express requirements in the statutes of many of the states regarding the keeping of minutes. In some states, however, the contents of these records, which are directed by law to be kept, are specified in considerable detail. The Corporation Laws of Massachusetts provide that "the agreement of association, an attested copy of the articles of organization or of articles of amendment of such agreement or of said articles and by-laws, with a reference on the margin of the copy of the by-laws to all amendments thereof, and a true record of all meetings of stockholders shall be kept by every corporation at its principal office in the commonwealth for the inspection of its stockholders." The statutes of a few states provide that the originals or

attested copies of all minutes of all meetings of stockholders or directors must be kept at its office or principal place of business within the state. The North Dakota Act reads: "All corporations for profit are required to keep a record of all their business transactions, a journal (a term used here to designate the minute book, thereby creating an unfortunate opportunity to confuse these records with the "journal" of the financial accounts) of all meetings of their directors, members or stockholders with the time and place of holding the same, whether regular or special, and, if special, its objects, how authorized and the notice thereof given. The record must embrace every act done, or authorized to be done; who were present and who were absent; and if requested by any director, member or stockholder, the time shall be noted when he entered the meeting or obtained leave of absence therefrom. On a similar request the yeas or nays must be taken on any proposition and a record thereof. On a similar request the protest of any director, member or stockholder to any action or proposed action must be entered in full. All such records shall be open to inspection of any director, member or stockholder, or creditor of the corporation."

The brief covering provisions of the Maine statute couple the requirements of the keeping of the minute book with the duty of the secretary of recording transactions: "The clerk shall be sworn and shall record all votes of the corporation in a book kept for that purpose."

The General Corporation Law of Ohio adopted in 1927 imposes a penalty upon all corporations which neglect, fail or refuse to keep minutes of the proceedings of incorporators, shareholders or directors.

Whether or not the maintaining of records of meetings is covered by statute, it is practically the invariable custom to keep minutes, in recognition that they are the best safeguard against controversies that may arise respecting action taken.

The Minutes

The minutes are the official records of action taken by the stockholders, directors, and their important committees. The corporation can, of course, only act through its officers and agents, who must keep within the scope of their authority. In the case of agents this authority must be express, and in respect to matters of any importance, such authorizations should be incorporated into resolutions of the board of directors. In the case of officers, certain powers are considered as inherent in the office and others as implied from

the express powers defined in the statutes or by-laws. In respect to matters of relatively minor importanee connected with the usual routine of duties of office no further authorizations of acts are necessary. But in cases of transactions involving considerable amounts, or substantially affecting the property of the corporation or where specific definitions of authority are advisable, such matters should be incorporated in resolutions and fully and accurately repeated in the minutes. An idea of kinds of transactions and of necessary definitions referred to can be obtained from a study of the forms of resolutions of interest to accounting executives, presented in Section VI.

The Minute Book

The book in which minutes of meetings of stockholders and directors are kept is called the minute book. Usually in addition to the minutes and preceding the minutes of first meetings of stockholders and directors are inserted the charter and the by-laws. Among the larger corporations a separate minute book is kept for each class of meetings, one for meetings of stockholders, one for meetings of directors and one for each of the important committees. In the case of small companies, however, where the meetings are few, a simple book is often made to serve for all meetings. The meetings of stockholders and those of the directors may be kept in separate sections of the book or the reports of respective classes of meetings may be inserted in the order of dates when such meetings were held. As most corporations hold but one meeting, the annual meeting, each year, the minutes of directors' meetings occupy a much greater space. The minutes of each meeting are begun at the top of a new page, regardless of the place of ending on the preceding page of the minutes of the last meeting. Loose leaf books are now commonly used for keeping minutes. The pages are, however, numbered and the books are often equipped with backing devices in order to provide against an opportunity for substitution of sheets.

There is considerable diversity of practice in respect to making the contents of reports or other documents referred to at meetings a part of the minutes. When these are spread on the pages of the minute book, or incorporated in the book after the minutes of the meeting to which they relate they are safeguarded from loss and if the subject matter is important and the necessity of careful preservation is great the advantages of this procedure are obvious. When such exhibits are filed away or bound together the documents or volumes may be unavailable or inconvenient to locate when immediate need for them arises in the future.

Most corporations embody in the minutes of the annual meeting or insert immediately thereafter the annual report to stockholders, including the certified balance sheet and operating statement.

Relation of Minutes and Financial Records

All reports of corporate action in the minutes pertaining to or affecting the assets and liabilities of the corporation should be carefully studied by the officer or accounting executive in charge of the accounting records of the corporation. In the larger corporations it is customary for the secretary to furnish a carbon copy of all resolutions in which such transactions are embodied to the chief accountant. In such resolutions and in the contracts, leases, powers of attorney and other documents which they embrace, are usually contained facts and figures which must be recorded in the financial books and definitions which directly determine the manner of recording. Certain leading corporations have recognized the necessity of perfect agreement between the minutes and financial records by providing in the by-laws for the conducting by the controller of systematic audits of the minutes and other records in the custody of the secretary.

Some of the more important business matters covered in the corporation's minute book of which the accountant must be cognizant are:

A. Amount of authorized capital stock—kinds of stock, classes, preferred or common, number of shares, par or no par value.
B. Authorizations of mortgages—terms of mortgages, rate of interest, etc.
C. Stock Issuances—kind and amount, and for what issued.
D. Bond Issuances—amount and for what issued.
E. If issuances are for property, value and full description of property.
F. Authorization of officers' salaries—amount and when and how payable.
G. Authorization of any special bonuses to be paid in addition to salaries, based on service contracts with officers or major executives.
H. All contracts of an important character.
I. Designation of bank depositaries.

J. Authorization of officers empowered to sign checks.

K. Authorization to establish or extend substantial credits.

In addition to these matters enumerated are many others of less importance, some of them embodied in resolutions presented in Section VI which directly or indirectly have a bearing on the corporation's financial accounts, and in respect to which knowledge by the accounting authority is essential.

Stock Certificate Book

Certificates of stock are generally ordered in books by corporations of small or medium size and there is usually a separate book for each class of stock. Many of the corporations having large lists of shareholders, prefer unbound certificates and in some instances have them delivered without the stubs. If stubs are attached these bear numbers corresponding to the certificates and the name of purchaser and other information is entered as a permanent record on the stub, preferably before detaching, thus lessening the likelihood of incorrect entries. On the stub or on a carbon copy, if stubs are not used, is shown the history of issuance of each certificate; the number, to whom issued, date issued and whether an original issue or issued pursuant to a transfer. A place is also shown on the stub or carbon copy for the signature of the stockholder in acknowledgment of the receipt of the certificate and the date thereof. Stock certificates are generally kept in the possession of the secretary, who as the custodian of the corporation seal is required to affix it to each certificate and is frequently one of the signing officers. In cases of transfer the old certificates must be surrendered and cancelled before the new certificate is delivered. After cancellation, if the stub system is in use, the old certificate is sometimes affixed to its original stub, for purposes of record and preservation. The standards prescribed for stock certificates by the New York Stock Exchange require that they be engraved. (See Rules for Listing, Section X). The form shown in Fig. 17 is a simple form of common stock certificate. A specimen of a certificate of the preferred stock of a leading corporation is shown in Fig. 18.

Stock Subscriptions

A subscription for the stock of a corporation, whereby the subscriber agrees with a corporation already in exist-

COMMON STOCK CERTIFICATE

Number

Shares

Common Stock
Without Par Value

Common Stock
Without Par Value

Incorporated Under the Laws of Maryland

ALLEGHANY CORPORATION.

This certifies that.....is the owner of.....fully paid and non assessable shares—without par value of the common capital stock of Alleghany Corporation transferable in person or by attorney on the books of the Corporation on surrender of this certificate properly indorsed. Reference is made to Articles Sixth, Ninth and Tenth of the Charter of the corporation as filed January 26, 1929 for a statement of the preferences appertaining to the cumulative 5½% Preferred Stock Series A and the relative restrictions, limitations and qualifications of the rights of the cumulative 5½% Preferred Stock Series A and of the Common Stock of the corporation, the text of such Articles Sixth, Ninth and Tenth of the Charter being printed on the reverse hereof. This certificate is not valid until countersigned by the Transfer Agents and Registered by the Registrar.

Fig. 17: Common Stock Certificate

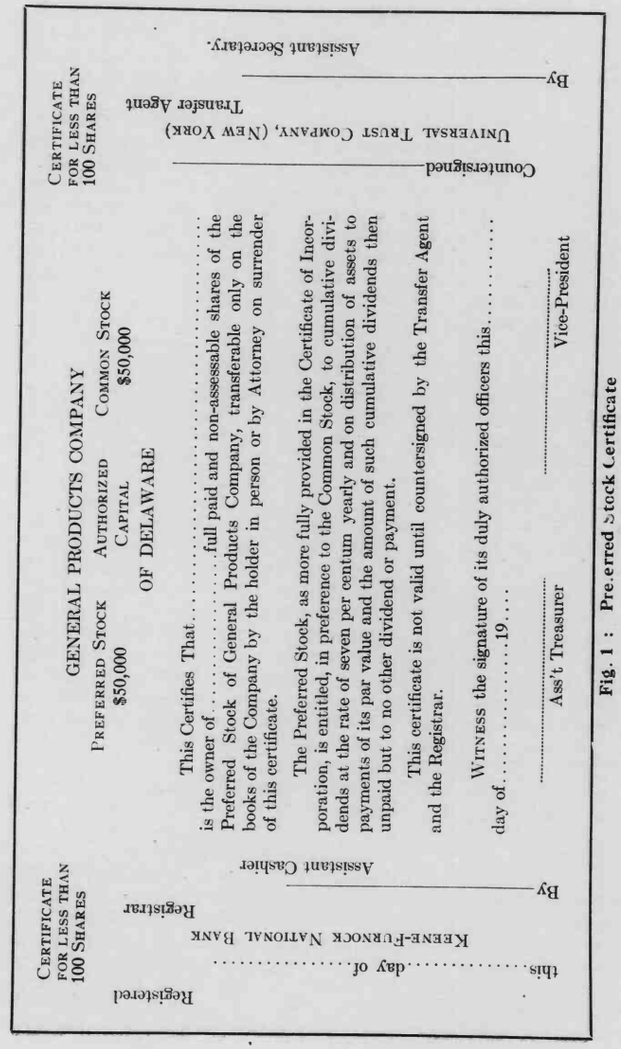
ence or with a group of individuals comprising the incorporators of a corporation about to be formed to purchase stock of such corporation, is a legally binding contract. Such a contract, if made with the incorporators as individuals, must be accepted by the corporation when it comes into existence, to be legally binding. Such an agreement, although it need not be in any particular form, must be for a specific number of shares at a specified price. A subscription agreement, the moment it becomes a valid contract, actually makes the subscriber a stockholder and is thus to be distinguished from a mere executory contract to purchase stock from a stockholder.

A subscription agreement is deemed by the law to contain, as an integral part thereof, the provisions of the statutes governing corporations in the particular state, as well as the charter of the corporation itself. Thus, if the statutes of the particular state in which the corporation is, or is to be, incorporated provide that for such an agreement to be valid and enforceable, a certain portion of the purchase price shall be paid at the time the subscription is made (as is often the case where the agreement is made with the incorporators), such provisions are as much a part of the agreement as if they were specifically stated in it. Where the statutes are silent on this point, the courts are divided in their opinions as to whether non-payment of a deposit at the time the agreement is made will nullify the agreement.

Subscription agreements may be absolute or conditional. They are said to be conditional when they contain an agreement whereby there exists some condition, to be complied with by the corporation in respect to payment, or in regard to how the corporation shall employ the money paid, etc., before the subscriber will be bound. Such conditions precedent should be carefully distinguished from conditions to be performed by the corporation other than those appertaining to the delivery of stock.

In such cases, when the corporation is obligated to do something besides deliver the stock to the subscriber, the condition is subsequent and not precedent and creates a separate and collateral agreement on which the corporation is additionally liable. The contract in such cases is valid and enforceable when it is made, and the corporation may be sued for a breach of either or both obligations.

As subscription agreements are legal contracts, the usual rules of law will apply to them. So if the subscriber fails to pay for his stock, the corporation may bring an action against him for the breach. As it is an elementary rule of the law of contracts that the offeror may withdraw his



CERTIFICATE FOR LESS THAN 100 SHARES

GENERAL PRODUCTS COMPANY

PREFERRED STOCK $50,000 — AUTHORIZED CAPITAL — COMMON STOCK $50,000

OF DELAWARE

This Certifies That.....

is the owner of.....full paid and non-assessable shares of the Preferred Stock of General Products Company, transferable only on the books of the Company by the holder in person or by Attorney on surrender of this certificate.

The Preferred Stock, as more fully provided in the Certificate of Incorporation, is entitled, in preference to the Common Stock, to cumulative dividends at the rate of seven per centum yearly and on distribution of assets to payments of its par value and the amount of such cumulative dividends then unpaid but to no other dividend or payment.

This certificate is not valid until countersigned by the Transfer Agent and the Registrar.

WITNESS the signature of its duly authorized officers this.....

day of.....19....

.....
Vice-President

.....
Ass't Treasurer

Countersigned.....

UNIVERSAL TRUST COMPANY, (NEW YORK)
Transfer Agent

By.....
Assistant Secretary.

this.....day of.....

KEENE-FURNOCK NATIONAL BANK
Registrar

By.....
Assistant Cashier

Registered

CERTIFICATE FOR LESS THAN 100 SHARES

Fig. 1 : Preferred Stock Certificate

offer before it is accepted, so a subscriber who has made an agreement with the incorporators prior to incorporation, may withdraw his subscription before the corporation comes into existence and accepts the offer, applying the familiar rule.

By the same token, the rules in respect to fraud and misrepresentation apply to subscription agreements as well as to other contracts. A subscriber may obtain a rescission of a subscription agreement which was obtained by fraud if the rights of third parties are not affected. It is important to note that when a subscription agreement has been procured by fraud, it is voidable—not void—and hence the subscriber has his election to avoid the contract, or to take advantage of it if he so desires and deems it to his best interest to do so.

Subscription Records

Subscriptions to stock are ordinarily received on forms of subscription agreements. The traditional method, which is still largely used, is to circulate a subscription list. The corporation law of Ohio, enacted in 1927 directs that the incorporators or a majority of them shall order books to be opened for subscription to the shares of the corporation at such time and place as they may determine and if the articles provide for shares without par value and do not specify the amount of consideration to be paid or delivered for such shares subscribed before organization, the incorporators shall specify such amount. A subscription list is introduced by an agreement setting forth the terms of subscription. Immediately following the agreement are the date and captions reading: Name of subscriber, address, kind of shares, number of shares and amount. A simple form of subscription list and another showing agreement to pay the first installment to a trustee is shown in Section VIII. Ordinarily subscriptions are taken on separate subscription blanks, after incorporation, and where sufficient funds have been pre-arranged, no subscriptions are signed at all but checks are made payable to the treasurer of the corporation and stock certificates issued in exchange therefor. A specimen of a subscription blank, consisting of an agreement to purchase shares on installments is shown in Section VIII. When subscriptions are taken on installments, a record of the receipt of payments is necessary, and since the stock certificates are not delivered until the final payment has been made, a receipt for the installment money must be issued to the subscriber. A common method of recording installment payments is on the stub of a perfor-

JONES & JOHNSON, INC.

SHARES:

NAME:

DATE:

This is to certify that_____

is a subscriber for_____shares of Class_____

of JONES & JOHNSON, INC., of New York City at its par value of_____($) dollars per share.

Upon surrender of this certificate, a duly executed certificate for said shares of stock will be issued to the order of the said subscriber.

Witness our official signature this_____day of _____, 1930.

JONES & JOHNSON, INC.

By_____
President.

By_____
Secretary.

Fig. 19: Interim Receipt

ated receipt form, which recites the fact of the payment of the installment and states that the stock certificate will be delivered when payments are completed. A specimen form of this nature is shown in Section VIII. If the certificates will take some time to deliver, it is sometimes considered desirable to issue an interim receipt, which acknowledges the holder as entitled to the delivery of the certificate, when ready to exchange for the temporary receipt. Such a form is shown in Fig. 19.

Installment Book

In case installment arrangements are extensive and the number of payments numerous, it has been found advisable to use a book or card system, for recording the installment payments. The form of receipt which has been described in the preceding paragraph is known as installment scrip. It is filled out and mailed to the subscriber, and the details of the payment are entered in the book or card record. Stock-scrip or installment-scrip are transferable exactly in the same way that stock certificates are and in some instances are gotten up with the general appearance of stock certificates, including the affixing of the corporation's seal. When under the plan of handling subscription agreements, a series of installments from all subscribers is payable upon definite dates, every new installment call requires the opening of a new installment sheet. A special design of book wherein names may be written but once for every four or five installment calls as in Fig. 20 will obviate the necessity of re-writing the names for every new installment call.

Stockholders Records

The corporation laws of most states contain provisions requiring the keeping of records of stockholders. The objects stated in the statutes vary, and the designations and descriptions are diversified. The effect of such provisions, however, is to cause complete records of stock issuances and transfers to be kept by corporations. In some instances the object is stated to be that such records shall be available for inspection by stockholders, creditors and the authorities. Less frequently the object is to define who shall be entitled to receive notice of stockholders' meetings, in connection with regulations directing the secretary to give such notice. Although the specific statutory requirements of the statute as to the form and content of stockholders records must be complied with, if such specifications are not imposed by statute, they are left to the discretion of the responsible

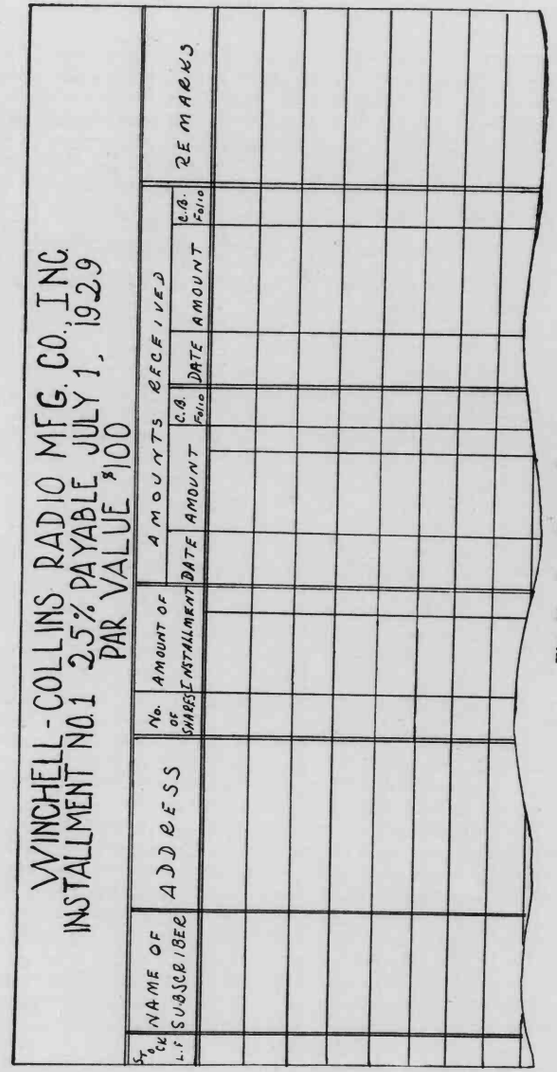


Fig. 20: Installment Book

officers of the corporation. In some states as in New York, special forms of stock records have been prescribed by State officers, who are authorized by law to require such uniform systems to be kept for tax purposes. The books customarily maintained, irrespective of the particular provisions of the statutes are known as the Stock Book, Stock List, or Stock Register, the Transfer Book or Transfer Register and the Stock Ledger.

Statutes Prescribing Keeping of Stock Book

The statutes of most states require a "stock book," as it is generally termed, to be kept by corporations at their principal office. The New Jersey statute directs that the stock book shall contain "the name and address of the stockholders, the number of shares held by them respectively," and that they shall "at all times during the usual hours for business be open to the examination of every stockholder." The New York Statute reads that every stock corporation shall keep at its office—"a book to be known as a stock book containing the names alphabetically arranged of all persons who are stockholders of the corporation, showing their places of residence, the number of shares of stock held by them respectively, the time when they respectively became the owners thereof and the amount paid thereon. If any such corporation has in the state a transfer agent, such stock book may be deposited in the office of such agent or may be kept in the office of the corporation at its option, provided that if it be kept in the office of the transfer agent there shall be posted in a conspicuous place a statement setting forth the fact with the name and address of the transfer agent where the stock book is kept. The stock book of every such corporation shall be open daily during at least three business hours, for inspection by any judgment creditor of the corporation, or by any person who shall have been a stockholder of record in such corporation for at least six months immediately preceding his demand; or by any person holding or thereunto in writing authorized by the holders of at least five per centum of all its outstanding shares. Persons so entitled to inspect stock books may make extracts from them. No transfer of stock shall be valid as against the corporation, the stockholders and creditors for any purpose, except to render the transferee liable for the debts of the corporation to the extent provided for in this chapter until it shall have been entered in such books as required by this section by an entry showing from and to whom transferred." The statute also provides that the stock book of every stock corporation shall be presumptive evidence of the facts there-

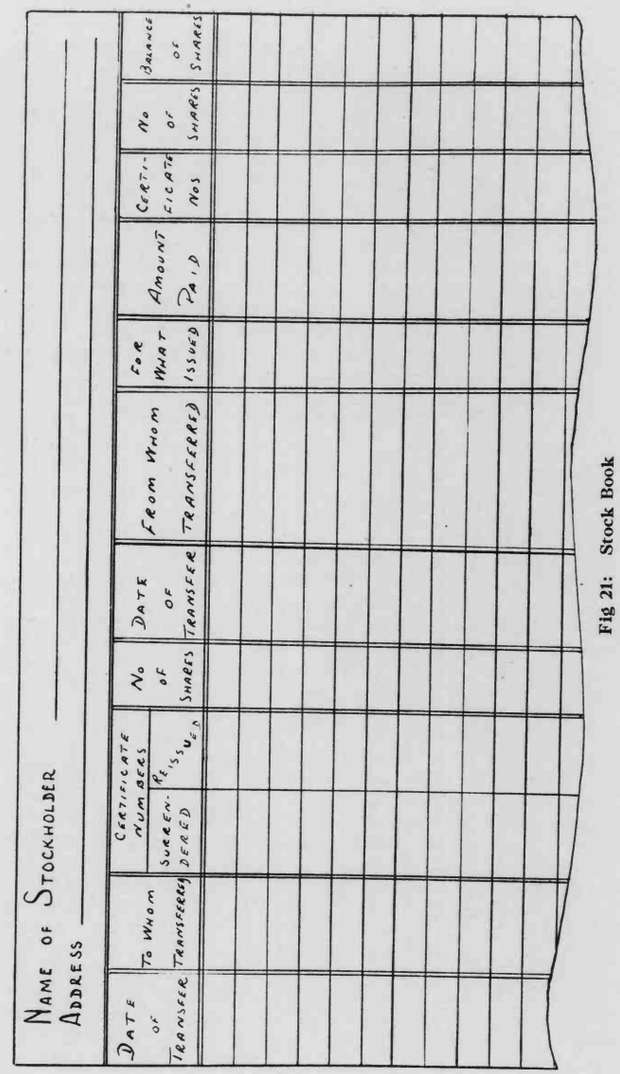


Fig 21: Stock Book

in so stated in favor of the plaintiff in any action or proceeding against such corporation or any of its officers, directors or stockholders.

The Statute of Pennsylvania does not use the term "stock book." Its brief provision reads: "Every corporation is required to keep in some accessible place within the commonwealth a stock certificate book, book of account, transfer ledger or register."

The Virginia corporation laws require that "every stockholder of any corporation.....furnish to the secretary of such corporation from time to time over his signature the address to which notice to him of every kind shall be mailed. The secretary of every corporation shall keep a register of the address of each stockholder so furnished him and make all proper changes in such register, retaining and filing his authority for such entries."

Nature of Stock Book or Stock Register

The function of the stock book or stock register is usually to show a correct list of stockholders, their addresses, the number of shares held, the dates of becoming stockholders. This record is customarily referred to by corporations as the stock list. Usually it does not embrace information respecting amounts paid on the stock, as the original issuance of the certificate and therefore the ownership as of record does not take place until the stock is paid for, and the corporation is not interested in the considerations passing between the transferor and transferee of the stock. It will be observed however that under the language of the New York statute the stock book must show "the amount paid thereon."

When the shares of a corporation are numerous and considerable trading takes place, it becomes necessary to guard against the possible overissuance of the stock, which is accomplished by the appointment of a registrar, usually a bank or trust company. This practice also serves as a safeguard to investors against issues of stock that are not bona fide. The registrar keeps a book called the stock register, (See Fig. 22) in which the names of all shareholders are entered in the order of their dates of registrations. The stock register maintains a control over the issuance of the shares, since the number of shares shown on that record must not exceed the number of shares of that class which the corporation is authorized to issue. Assuming that all the stock of the corporation is being protected by such registration, the record so maintained constitutes the official list of stockholders of record. A duplicate of this list and periodical reports of current changes is usually supplied

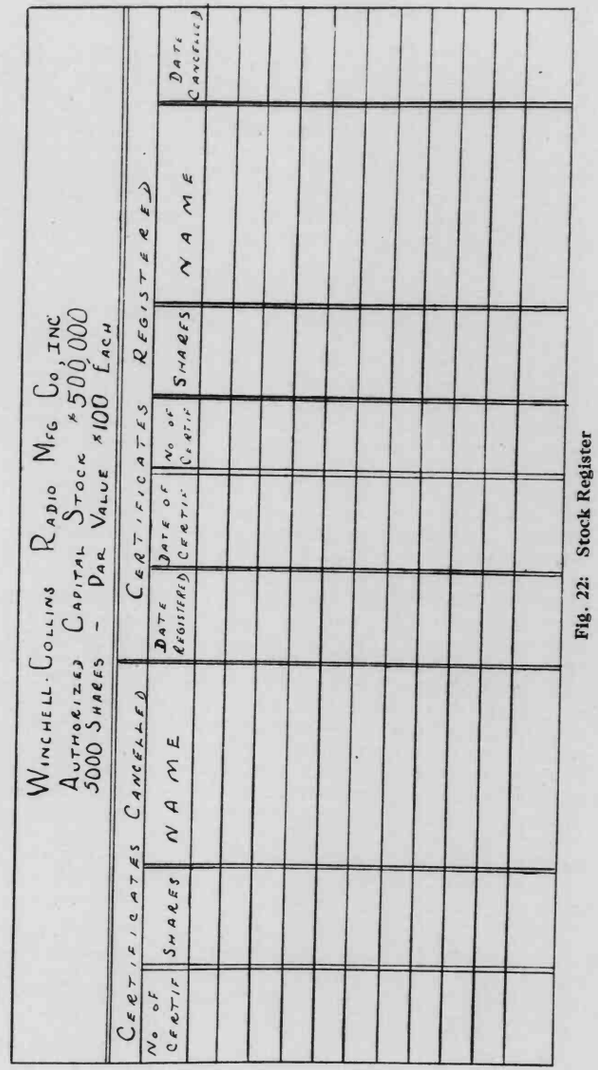


Fig. 22: Stock Register

by the registrar to the secretary who is thus enabled to maintain a correct list of stockholders of record, for the various requirements of his office, at a minimum of inconvenience. If the stock of the corporation is registered by a trust company the true register is that conducted by the registrar and not the stock list prepared by the secretary. However, if the shares are registered not by an outside agent, but by the corporation, the stock record so conducted is often designated as the register.

Transfer Records

To qualify to exercise the rights of a stockholder, under the corporation laws of most states the holder of a certificate of stock purchased by him must take measures to have the transfer made effective and officially recorded. The Uniform Transfer Act which has now been adopted in many of the states, provides how title to certificates and shares may be transferred, but it stipulates that nothing in the act shall be construed as forbidding a corporation to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner. (See Uniform Stock Transfer Law as adopted in New York in Section IX). When a holder of record disposes of his stock he executes the form of assignment and power which appears on the reverse side of the certificate. There may be several sales and passings of title by delivery, but these transfers of ownership do not constitute the purchasers stockholders of record. When the certificate comes into the possession of a purchaser who wishes the stock to stand on the books in his name he must surrender the old certificate with the form of assignment and power duly executed by the stockholder of record to the corporation. The name of an officer, usually an assistant, responsible for transfers is then filled in on the blank in the power left for the name of the attorney in fact. By virtue of the assignment and power the attorney in fact then effects the transfer of record. At the top of each page of the transfer book kept by a large automobile company appears the covering statement:

"By virtue of the assignment and power of attorney to transfer endorsed upon, or attached to each stock certificate listed below as surrendered all and singular the shares represented thereby are hereby transferred and new certificates thereof are issued as below set forth."

Not all corporations go to the extent of printing such a lengthy sentence, however. Probably a majority of the

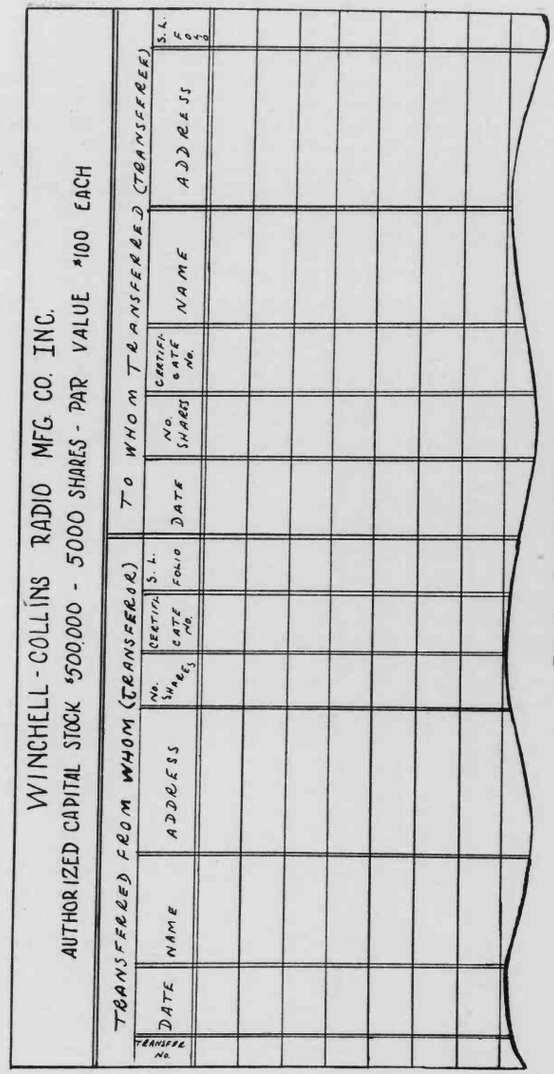
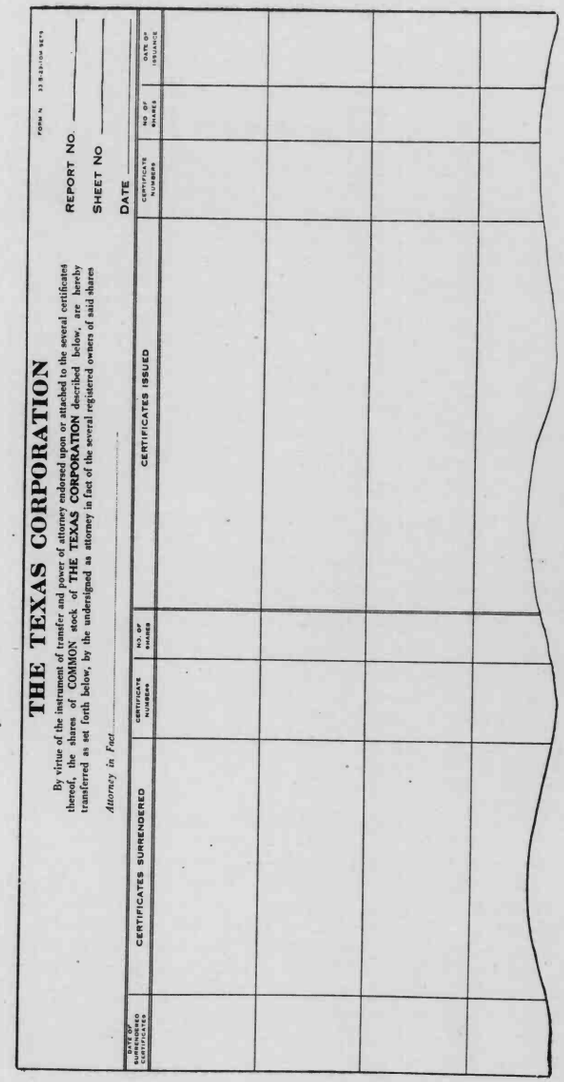


Fig. 23: Transfer Register

small corporations are satisfied to regard the assignment and power, if properly executed, as sufficient in themselves, provided the old certificate is attached to its corresponding stub, upon which the appropriate entries are made. Somewhat the same attitude prevails among many of the larger companies who omit from their transfer book the language purporting to constitute the transfer by the attorney in fact. Frequently however, in such cases the signature of the attorney appears on some part of each page.

Transfer Department Systems

Corporations which maintain their own transfer departments and have large numbers of stockholders use highly efficient systems for their transfer work. An example is shown in Figures 24 and 25, of sections of two sheets, 14½ x 17½, used by the Texas Corporation. These sheets are attached to two others (not shown) which are similar to the sheet illustrated in Figure 24, except that they do not have the recital of the transfers of the shares listed, which appears at the top of Figure 24. When the details of the transfer are typed on Figure 24 the carbon impressions are made on Figure 25 and on the third and fourth sheets. The third sheet is forwarded to the registered agent of the corporation in Delaware, where by statute a record of transfers must be kept by each Delaware company at its principal or registered office in the State. The fourth sheet, together with old cancelled certificates and the new ones, is sent to the office of the registrar each day, where the new shares are signed and registered, and the old and new certificates returned early on the following day. The first sheet, shown in Figure 25, contains twenty-two perforated slips, the eleven "Debit" slips on the left, corresponding to the "certificates surrendered" column in Figure 24 being printed in black, and the eleven "Credit" slips on the right, corresponding to the "certificates issued" column in Figure 24, being printed in red. On each of the debit slips are two spaces, one for indicating that the account is dead and instructing the addressograph department to remove the plate, and the other showing that the account is to be retained, the transferor remaining a shareholder but the amount of dividends to be paid on the new stockholding to be changed on the addressograph plate. Adjacent to the perforated margin at the right are two spaces, one for posting and one for checking. The arrangement on each of the Credit slips is the same as on the Debit slips except that if the transferee is not already a stockholder, space is provided for indicating that a new addressograph plate should



THE TEXAS CORPORATION

By virtue of the instrument of transfer and power of attorney endorsed upon or attached to the several certificates thereof, the shares of COMMON stock of THE TEXAS CORPORATION described below, are hereby transferred as set forth below, by the undersigned as attorney in fact of the several registered owners of said shares

Attorney in Fact .....

REPORT NO. _____

SHEET NO _____

DATE _____

DATE OF INSTRUCTIONS TO CANCEL CERTIFICATES	CERTIFICATES SURRENDERED			CERTIFICATES ISSUED			
		CERTIFICATE NUMBERS	NO. OF SHARES		CERTIFICATE NUMBERS	NO. OF SHARES	DATE OF ISSUANCE

Fig. 24: Original Transfer Sheet

be set up showing the amount of dividends payable on the stock.

Addressograph System

After the information on the sheet shown in Figure 25 has been typed, the slips are separated and sent to the addressograph department, where new name plates or new amount plates are prepared as required. The impressions from the new stencils are then put on the reverse sides of the slips and they are delivered to the bookkeeping department. The stencils are so arranged that the impression of name and address will fall into a position on the dividend check corresponding to a printed cutout folder exactly the size of the check. This is adaptable to mailing in a window envelope, thus promoting maximum economy of time and effort in making dividend payments. The system is adaptable to any kind of communications to stockholders.

Posting

When the slips are delivered to the bookkeeping department they are assorted into groups corresponding to the respective ledger divisions and the ledger clerks make the appropriate entries of certificate cancellations and issuances on the stockholders' ledger cards. If the purchaser is a new stockholder this will necessitate making out a new card. After the accounts on the perforated slips have been posted, the debits and credits are each totalled on mechanical adding machines by a control department, debit items and credit items being listed respectively on long strips. As the total debits from all ledger sections must equal the total credits, a means of constant control is thus provided.

Transfer Record Sheet

The first sheet of the quadruplicate system described constitutes the transfer register. Separate records are kept for different classes of stock. Under the recital of transfer by the attorney in fact are columnar captions showing date of surrendered certificate, certificates surrendered, certificate numbers, number of shares, certificates issued, certificate numbers, number of shares and date of issuance. The transfer sheets, when assembled, constitute the transfer register. The surrendered certificates with any separate assignments or powers are carefully filed as these represent the authorizations for making the transfers.

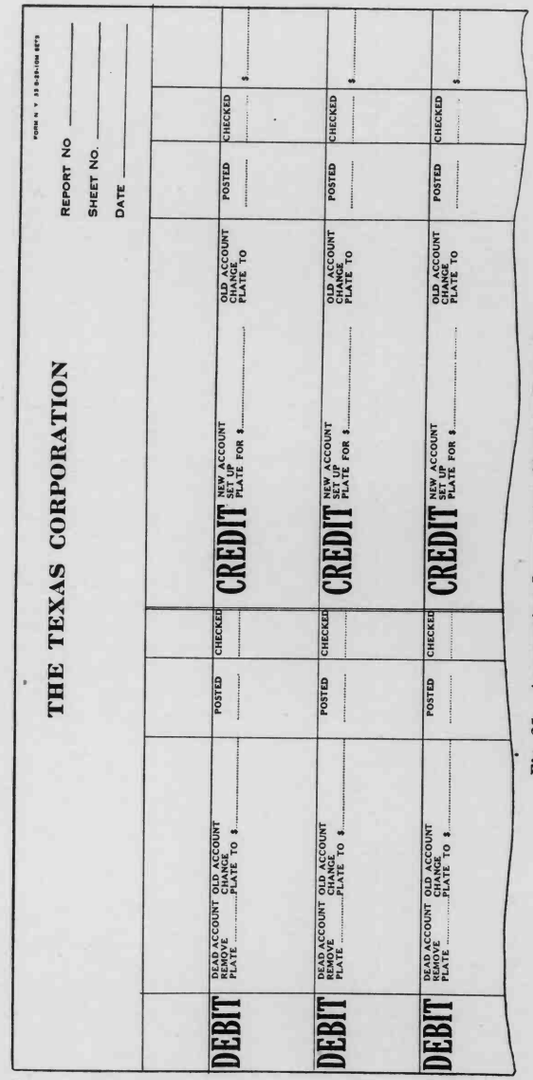


Fig. 25: Accounting Instruction Sheet in Transfers

Corporation Transfer Requirements

A list of transfer requirements prepared by the Bethlehem Steel Corporation for convenience in notifying persons as to requirements applicable to particular transfers reads as follows:

"In order to effect a transfer of capital stock of the Bethlehem Steel Corporation standing upon its records in the name of a deceased person, it is necessary that the Executor, Administrator, or other duly appointed legal representative, present to the Corporation with the stock certificate properly endorsed:

1. A duly authenticated or certified copy of the Will, if any, of the decedent.

2. A certificate of the proper Surrogate's or Probate Court, showing the appointment of the Executor, Administrator, or other legally appointed representative and that such appointment is still in force. Such certificate must be dated not longer than six months prior to the date of presentation thereof to the Corporation.

3. A certified copy of the court order authorizing sale or distribution where the laws of the State in which the estate is being administered require such order.

4. A written waiver or consent from the Comptroller of the Treasury of the State of New Jersey, under the Transfer Inheritance Tax Law of that State unless the decedent died after July 1, 1926, and was at the time of his death a non-resident of the State of New Jersey, and, in case decedent was a resident of the State of New York, a written waiver or consent from the Tax Commission of the State of New York, under the Transfer (Inheritance) Tax Law of that State.

5. The signature to the assignment or power of transfer must be satisfactorily guaranteed by a New York Stock Exchange house or a bank or trust company having a New York correspondent.

6. The transfer of shares of stock of the Corporation is subject to a New York State Tax of two cents per share and a Federal Tax of two cents per share. The requisite stamps or their equivalent in cash must accompany the certificate of stock to be transferred.

7. Stock may not be transferred into the individual name of an Executor or Administrator unless there is filed with the Corporation either a court order authorizing such transfer or an affidavit from the Executor or Administrator stating either that all of the debts of the estate have been

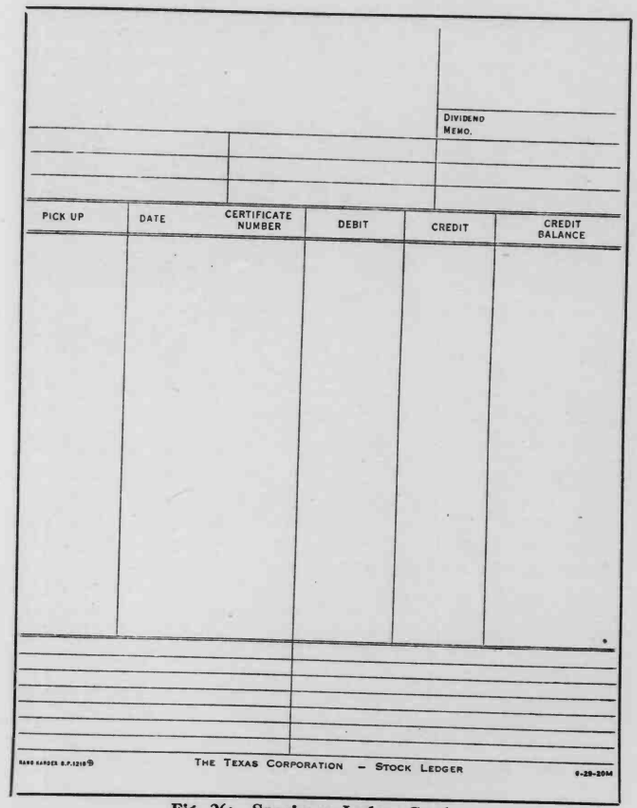


Fig. 26: Specimen Ledger Card

paid or that there are sufficient remaining assets to provide for the payment of such debts."

Stock Ledger

The book containing an account with each stockholder is known as the stock ledger. Sometimes ledger cards are used instead of a loose leaf or bound book. The stock ledger record shows the name and address of the stockholder, the number of shares issued, for what consideration issued,

shares subsequently acquired, shares transferred and the balance of shares remaining to the stockholder's credit. When a certificate is issued it is posted to the credit side of the stockholder's account in the stock ledger. When a transfer of stock is made it is posted to the debit side of the stockholder's account. A trial balance, taken as of a certain date, of all the stockholders' accounts should equal the total issued capital stock of the company. For example, the authorized capital stock is 5,000 shares and there remains unissued 3,000 shares. The stock ledger should then show

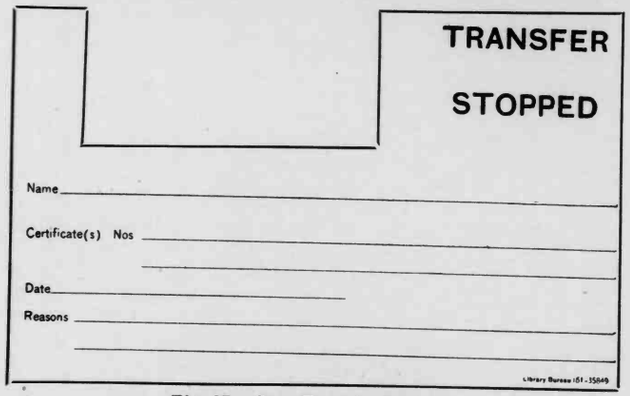


Fig. 27: Stop Transfer Device

2,000 shares, the total capital stock issued, to the credit of individual stockholders.

Ledger Card and Stop Transfer Signal

In Fig. 26 is presented a specimen ledger card used by the Texas Corporation. At the top of the card is a space for the name and spaces for Dividend Memoranda, followed by captions: Pickup, Date, Certificate Number, debit, credit and credit balance. Both sides of the card are arranged and printed exactly alike. In Fig. 27 is shown a stop transfer signal device which comes folded at the center of the cut-out, and can be easily slipped over the top of the ledger card (Fig. 26) of the stockholder whose transfer is to be held up until the question regarding the transfer is eliminated.

Diversity of Legal Requirements

The diversity of statutory provisions respecting the various corporate records, and the variations in designations, are likely to be confusing, and emphasize the need of consulting and carefully examining the precise wording of the law in a given state. For example, the section of the New York Statute which has been quoted in a preceding paragraph devoted to stock book and stock register, after prescribing the contents of the "Stock Book," supplements this description at a subsequent point in the section by stating that "no transfer of stock shall be valid as against the corporation, its stockholders and creditors for any purpose except to render the transferee liable for the debts of the corporation to the extent provided for in this chapter until it shall have been entered in such book, as required by this Section, by an entry showing from and to whom transferred." This supplementary provision, in effect, prescribes a combined stock book or stock register and transfer register.

This idea of combining the stock register and transfer book is borne out by the language of the statutes of some states, that, as in Oklahoma, provide that "corporations for profit must keep a book, to be known as 'the stock and transfer book' in which must be kept a record of all stock, the names of the stockholders or members alphabetically arranged; installment paid or unpaid; assessments levied and paid or unpaid, a statement of every alienation, sale or transfer of stock made, the date thereof, and by and to whom; and all such other records as the by-laws prescribe."

The Massachusetts Statute provides: "The stock and transfer books of every corporation, which shall contain a complete list of all stockholders, their residences and the amount of stock held by each, shall be kept at the office of the corporation in the Commonwealth for the inspection of its stockholders."

The Pennsylvania Statute requires "every corporation to keep at some accessible place within the Commonwealth a stock certificate book and book of account, transfer ledger or register." The Connecticut laws provide "that the stock ledger if there be one, otherwise the transfer books of the corporation, shall be *prima facie* evidence as to who are stockholders. The original or duplicate books of any corporation, in which the transfers of stock shall be registered, and the original or duplicate books containing the names and addresses of the stockholders, and the number of shares held by them respectively, shall at all times during the usual

hours of business be open to the inspection, at the principal office or place of business of the corporation in this State, of every bona fide stockholder, when such inspection shall be sought in good faith, in the interest of such stockholder or of the corporation." The Maryland Statute provides that "original or duplicate stock ledgers containing the names and addresses of the stockholders of every corporation of this State, having capital stock, and the number of shares (of each class, if two or more classes have been issued) held by them respectively, shall during the usual business hours of every business day be open for the inspection of any person or persons holding in the aggregate five per cent. of the outstanding capital stock, or five per cent. of any class thereof, if two or more classes have been issued, at its principal office in this State, or at any other office or agency of the corporation in such city or town as may be specified in the by-laws."

The statute of Michigan provides "every corporation formed under the laws of this State is hereby required to keep a correct list of all its stockholders who are residents of this State, together with a statement of the number of shares held by each stockholder, at their agency or office in this State, and if there be more than one, then at some one of such agencies or offices to be designated by the officers of such corporation.********Any person holding any stock in such corporation may have the same transferred upon the books of such agency within this State upon the same terms and conditions and restrictions as is provided by law or the rules of such corporation for such transfer at the principal office of such corporation wherever it may be situated." The Minnesota law provides merely that "in all stock corporations the directors shall cause accurate and complete records to be kept of all corporate proceedings and of all stock subscribed, transferred, cancelled or retired." A later section however reads, "The transfer of shares is not valid except as between the parties thereto until it is regularly entered on the books of the company so far as to show the names of the persons by and to whom transferred, the number or other designations of the shares and the date of the transfer; but such transfer shall not in any way exempt the person making such transfer from any liabilities of said corporation which were created prior to such transfer. The books of the company shall be so kept as to show intelligibly the original stockholders, their respective interests, the amount which has been paid on their shares, and all transfers thereof, and such books or a correct copy thereof, so far as the items mentioned in this Section are concerned,

shall be subject to the inspection of any person desiring the same."

These quotations from some of the state laws will indicate the diversity of provisions applicable to stock records. The statutes should be consulted for any given state in order to be sure that legal regulations are being observed. A digest of statutory provision of all states relating to corporate records is presented in Section IX.

Dividend Records

The records for dividend payments are described in the chapter on dividends. The dividend book, as it is called, is used by large corporations and in it is recorded full information as to dividends paid to stockholders.

Bond Book

The records showing full information respecting bondholders are described in the chapters on bonds. These records supply data as to names of bondholders, bond numbers, dates of issuance, and so forth.

CHAPTER IX

CORPORATION ACCOUNTS

State Laws Relating to Accounts

The corporation laws of the various states do not attempt to prescribe the kind or form of the corporation's accounting records, to the same extent as in the case of corporate activities records. Most regulations are confined to the requirements that books of account be kept and that they shall be open to the inspection of stockholders, or that reports of condition shall be rendered to stockholders.

It is true that in particular states requirements as to information reports include specified forms and items, but these are practically identical with the arrangement and information of the usual balance sheet. The mandatory provisions that books of account must be kept and that information must be made available to stockholders and others work no hardship on the honestly and efficiently conducted corporation, and such corporations are not affected by penalties imposed because their ordinary routine procedure constitutes a compliance.

Diversity of Statutes

Statutes of the various states show a wide diversity in particulars but a concurrence in the spirit and purpose of provisions pertaining to accounts.

A few states, as for instance, Mississippi, have no legislation. West Virginia provides that "the board of directors shall cause regular and correct books of account to be kept and to be settled and balanced every six months," and that "the property and funds, books and correspondence and papers of the corporation, in the possession or control of any officer or agent thereof shall be at all times subject to the investigation of the board of directors or a committee appointed for the purpose by a general meeting of the stockholders." Oklahoma, with North and South Dakota requires that regular books of accounts of all of the business of mining, manufacturing and other specified corporations must be kept, which with the vouchers shall be at all reasonable times open for the inspection of any of the stockholders, and as often as once each year a statement of such accounts shall be made by order of the directors and

laid before the stockholders. The Ohio Corporation Law imposes upon every corporation the duty of "keeping and maintaining adequate and correct accounts of its business transactions including accounts of its assets, liabilities, receipts, disbursements, gains, losses, stated capital and shares together with such particular accounts as may be required by the act. The books of account shall be open to the inspection of every shareholder at all reasonable times save and except for unreasonable or improper purposes." The Ohio Act also contains a provision similar to that included in the laws of a number of other states to the effect that "the treasurer or other fiscal officer of every corporation, unless the regulations shall charge some other officer with the duty and in such case, the officer so charged, shall be under the duty of keeping and maintaining the accounts required by this act to be maintained, preparing and laying before the stockholders' meetings the statement of profit and loss and balance sheet required to be laid before such meetings and mailing on request a copy of such statement and balance sheet so required by this act."

The equivalent section in the act of North Dakota conditions the presentation of the statement by the treasurer to instances where demand is made by a stockholder owning 20% of the capital stock:

"When any person or persons owning twenty per cent of the capital stock of any corporation formed for the purposes (for mining, manufacturing, etc.) mentioned in this chapter shall present a written request to the treasurer thereof that they desire a written statement of the affairs of the corporation, he must make such statement under oath, embracing a particular account of all its assets and liabilities in detail and deliver the same to the persons presenting the written request within twenty days after such presentation; and such treasurer shall also at the same time place and keep on file in his office for six months thereafter a copy of such statement, which shall at all times during business hours be exhibited to any stockholder of such corporation demanding an examination thereof; the treasurer, however, shall not be required to make or deliver such statement in the manner aforesaid oftener than once in every six months. If such treasurer neglects or refuses to comply with the provisions of this section he shall forfeit and pay to the person presenting such written request the sum of fifty dollars and the further sum of ten dollars for every twenty-four hours thereafter until such statement shall be furnished, to be sued for and recovered in an action." In

Wyoming the percentage of stock qualified to make the demand for a statement on the treasurer is 15%.

Under the Corporation Laws of Michigan "the books of every corporation containing its accounts shall be kept and shall at all reasonable times be open in the city, village, or town where such corporation is located, or at the office of the treasurer of such corporation within this state, for inspection by any of the stockholders of said corporation and said stockholders shall have access to the books and statements of said corporation, and shall have the right to examine the same in the said city, village or town or at said office and as often as once in each year a true statement of the accounts of such corporation shall be made and exhibited to the stockholders." The Wisconsin Corporation Law directs that: "At least once in each year, each stock corporation shall make and file in its principal office and keep on file there for the use of its stockholders, a statement and abstract of the assets and liabilities of such corporation and of its financial transactions for the previous year, which statement shall be verified by the affidavit of the treasurer, or other proper officer of such corporation, and shall contain a brief statement of the sources whence its receipts have been received, stated in classes, and a similar statement of its expenditures showing the amount disbursed for each class of objects and purposes."

In the section of the Pennsylvania Act prescribing the duties of officers appears this provision: "The treasurer shall keep the moneys of the corporation in a separate book account to his credit as treasurer, and if he shall neglect or refuse so to do he shall be liable to a penalty of $50 for every day he shall fail to do so to be recovered at a suit of any informer in an action of debt."

A table of specific requirements of corporation laws of all states regarding the keeping of accounting books and records is presented in Section IX of this volume.

Requirements of Accounting Data in Information Reports

Under the corporation laws of a number of the states, the form and substantial contents of the statement of assets and liabilities is prescribed as an essential component of the annual information report.

Thus, Subdivision 6 of the report required by G. L., C. 156, § 47 of the Commonwealth of Massachusetts reads:

"A statement of the assets and liabilities of the corporation as of the date of the end of its last fiscal year, to be made substantially in the following form:

ASSETS

Real estate	
Machinery	
Merchandise: (Manufactures, merchandise, materials and stock in process)	
Furniture & fixtures	
Cash and debts receivable	
Stocks and securities	
Patent rights	
Trade Marks	
Goodwill	
Profit and loss	
Total	

LIABILITIES

Capital stock (including only shares having par value)	
Accounts Payable	
Funded indebtedness	
Floating indebtedness	
Reserve	
Surplus	
Profit and loss	
Total	

It should be noted that, although the particulars of the information report may not be set out in the covering statute, the provision may direct the corporation to supply such information and in such form as may be prescribed by the designated state official. In such case the details as to form and subject matter of the report blank supplied by the proper state officer will govern the situation as authoritatively as if such details had been prescribed in the statute.

Regulation as to Certified Audit

In connection with the annual information reports which corporations are required to file in most states, a provision is in some instances inserted in the act to the effect that such reports must be accompanied by a written statement on oath by an auditor. The Massachusetts Corporation Law contains the following provisions:

"Such report of a corporation which has a capital stock of one hundred thousand dollars or more, for this purpose counting shares without par value as of a par value of one

hundred dollars each, shall be accompanied by a written statement on oath by an auditor that such report represents the true condition of the affairs of said corporation as disclosed by its books at the time of making such audit. Such auditor shall be employed for each ensuing fiscal year by a committee of three stockholders who are not directors which shall be selected at each annual meeting of the stockholders, or, if there are not three stockholders other than directors able and willing to serve on such committee, he shall be employed by the directors; but no bookkeeper, treasurer or other officer of the corporation shall be appointed as such auditor. The statement of the auditor shall be filed by him with said report in the office of the state secretary and shall be attached to and form part of it. The auditor shall be duly sworn to the faithful performance of his duties, and the officers of the corporation who sign said report of conditions shall certify thereon that the auditor was duly elected and qualified as herein provided."

Statutory Penalties

Non-compliances with statutory requirements, for which penalties are imposed upon corporation officers or the officer in charge of accounts are of two types. One class of violation consists in the failure to keep accounting records or to keep them in the manner prescribed, or to supply information obtainable only from properly maintained accounting records. The other type of violations consists in the deliberate falsification of records. An example of the first kind of non-compliance is observed in cases falling under the Ohio Statute. The covering section reads: "Every corporation which shall neglect, fail or refuse (a) to keep and maintain or cause to be kept and maintained the books or accounts required by this act to be kept and maintained, shall be subject to a penalty of one hundred dollars ($100) and the further penalty of ten dollars ($10) for every day, beginning three days after written request that said such default shall continue."

An illustration of the second type of non-compliance is supplied by cases embraced by the terms of the section from the Iowa statute: "The intentional keeping of false books or accounts shall be a misdemeanor on the part of any officer, agent or employee of the corporation guilty thereof or of any one whose duty it is to see that such books of account are correctly kept."

A similar although a more comprehensive provision is contained in the statutes of South Dakota, as follows:

"Every director, officer, agent or member of any corporation, who, with intent to defraud, destroys, alters, mutilates or falsifies any of the books, papers, writings or securities belonging to such corporation or makes or concurs in making any false entry or omits or concurs in omitting to make any material entry in any book of accounts, or other record or document kept by such corporation, is punishable by imprisonment in the state penitentiary not exceeding ten years and not less than three years, or by imprisonment in a county jail not exceeding one year, or by a fine not exceeding five hundred dollars, or by both such fine and imprisonment."

To ascertain whether a provision exists in a particular state, imposing penalties for non-compliance with a statute regulating the keeping of accounting books and records, consult the table in Section IX.

Setting Up The Corporation Accounts

The large corporation in its expansive scope of operations has many divisional ramifications and a great complexity of business transactions. The administration of an enterprise of this type requires considerable technical skill and a vast knowledge of the business activities. Only through a functional organization is it possible for the administrative executives to maintain close contact with the operations of the enterprise. The functional plan of management represents a coordination of the various activities of a business for purposes of administrative control. There are in the main four distinct activities or functions in every business, as follows:

1 - The production (or purchasing) of goods or service.
2 - The marketing of goods or service.
3 - The financing of the undertakings.
4 - The establishing of procedures, and the creating of suitable records to facilitate carrying out the above mentioned activities.

In order to ascertain the results of the business activities, practically every organization records its transactions in accordance with an established or definite classification of accounts. The chart of accounts, as it is usually termed, serves as the means through which managerial information is obtained concerning the functional activities of the business. The account records and other forms must be designed so as to accommodate the information and other data contained in the chart of accounts. If the informa-

tion as recorded is to be conclusive, correct, and sufficiently analytical to guide the management in directing the operations of the enterprise, the classification of accounts will have to be drafted in as broad, complete and comprehensive a manner as possible. It is well to bear in mind the following fundamental principles in drafting a chart of accounts:

(A) Make the classification of accounts as broad and complete as possible. Rather have a surplus of accounts than an insufficient number, so that every conceivable type of transaction which the corporation is likely to have can be properly recorded.

(B) In naming accounts, be careful to select appropriate designations which fully explain the intent or purpose of each account.

(C) Explain the terminology of the accounts in clear and simple language, so that the designations will be readily understood by all who have to use them.

(D) Be concise in the heading of the account, but do not abbreviate the designation, if such abbreviation does not fully convey the purpose of the account.

(E) An expansive set of accounts should be created for items of income and expense, so that every operating function can be properly recorded and then analyzed.

(F) Use each account only for the purpose of entry for which it is intended.

(G) Consider the possible future needs of the business as well as the present requirements. Draft the chart of accounts on this basis.

Use of Symbol Systems to Designate Accounts

To eliminate the necessity for writing the names of accounts in full, when recording transactions or making entries in the books of record, most corporations utilize symbols for their account designations. The symbol systems most frequently adopted are as follows:

1 — The straight numerical system. This method assigns an arbitrary series of numbers to the various accounts.

NUMBER SYMBOL SYSTEM USED		
ASSETS (Numbers 100 to 199)		
Current Assets	(A)	
Cash in Bank	(B)	
Cash in Office	(B)	
Notes Receivable	(B)	
Customers Accounts	(B)	
Merchandise	(B)	
Etc., Etc., Etc.	(B)	
Capital Assets	(A)	
Machinery	(B)	
Tools	(B)	
Automobiles	(B)	
Furniture & Fixtures	(B)	
Deferred Charges	(A)	
Prepaid Insurance	(B)	
Prepaid Advertising	(B)	
LIABILITIES AND CAPITAL (Numbers 200 to 299)		
Current Liabilities	(A)	
Taxes Accrued	(B)	
Salaries Accrued	(B)	
Notes Payable	(B)	
Accounts Payable	(B)	
Capital Liabilities	(A)	
First Mortgage 5% Bonds Payable	(B)	
Deferred Credits	(A)	
Interest Received in Advance	(B)	
Capital And Reserves	(A)	
Capital Stock	(B)	
Reserve for Depreciation	(B)	
Surplus	(B)	
ANALYSIS ACCOUNTS	(C)	
Sales	(Numbers 300 to 399)	
Sundry Income	(Numbers 400 to 499)	
Cost of Sales	(Numbers 500 to 599)	
Manufacturing Expenses	(Numbers 600 to 699)	
Selling Expenses	(Numbers 700 to 799)	
Administrative Expenses	(Numbers 800 to 899)	

Key to Chart
(A) Major Accounts
(B) Sub-Major Accounts
(C) Analysis Accounts

Fig. 28: Skeletonized Chart of Accounts

2. — The alphabetical or letter system. This is based upon the use of a single letter or series of letters which are so adapted as to designate the group, subdivision and title of an account.

3 — The combined letter and number system. Under this method a combination of letters and numbers is used to designate the respective accounts.

Opening The Books

Before the question of opening the books can be intelligently discussed, the subject of the kind of books to be used must be considered. The general financial books of account of most corporations include the following:

Cash Receipts, Cash Disbursements, Sales Journal, Purchase Journal, General Journal, General Ledger, Customers' Ledger, Creditors' Ledger, Notes Register, etc.

The accountant should inquire into and study the statutes of the state in order to have the accounting system conform to the legal requirements. The by-laws of the company should also be carefully read to ascertain what books and records have been specified by the stockholders. The final test of the accountant as to whether the system is complete or not is to determine the design and scope of all the books and records, in order to see whether every conceivable type of transaction which the corporation is likely to have can be properly recorded.

Arrangement and Classification of Accounts

After the financial books have been selected the next step is to draft the "Classification of Accounts." The chart of accounts shown in Figure 28 is merely a skeletonized design. Such a chart, with amplifications, serves as a means of analyzing transactions and summarizing the accounts for purposes of comparison, and aids in the preparation of financial statements. As stated previously, the use of numbers to designate the accounts is recommended in order to save clerical effort and facilitate the general accounting work.

The accounts should be arranged in the general ledger according to some definite plan. The basic plan of account arrangement is to set up the accounts in the general ledger in logical order as they would appear either in separate or consolidated amounts on the balance sheet and the profit and loss statement. The accountant need only keep before him when setting up the accounts on the general ledger

that there are but three groups of acounts, which are as follows:

(A) Major Accounts—These are the group accounts as they would appear on the balance sheet—Current Capital Assets, Deferred Charges, etc., and Current Liabilities, Capital Liabilities, Deferred Credits, etc.

(B) Sub-major Accounts—These are the individual accounts coming under the aforementioned Major Accounts, such as Cash in Bank, Cash in Office, Accounts Receivable, Machinery, Prepaid Insurance, Accounts Payable, Notes Payable, etc.

(C) Analysis Accounts—These are the profit and loss accounts, such as Sales, Sundry Income, Cost of Sales, Operating Expenses and Sundry Charges.

Concrete Example of Practical Charts of Accounts

In Figures 28a and 28b are shown the actual working charts of accounts of two large and outstanding corporations. These companies, engaged in entirely dissimilar lines of activity, offer a most interesting comparison in this important field of accounting procedure.

Special types of businesses or special kinds of transactions give rise to the need of creating suitable accounts adapted to their particular requirements. In some instances, therefore, it is necessary to rename accounts or develop additional accounts when the original classification is not complete in every respect. In Chapter XIV (Bonds) reference is made to the necessity for reclassification, when the creation of special accounts is required because of the terms of the mortgage indenture which indicates that provision is to be made for properly recording the specific types of expense as mentioned in the mortgage agreement.

Special Requirements for Financial Institutions

It should be noted that financial corporations, such as banks, trust companies, insurance companies and building and loan associations as well as public utility corporations are created under special charters, and furthermore come under the close supervisory control of governmental authorities and regulations. The accounts should accordingly conform to the legal requirements in every possible respect.

The corporation is to all intents and purposes an "artificial being" and as such carries on its business in a man-

ner similar to that of an individual. In planning the records of the corporation, however, it is necessary to consider its business transactions and the accounts in their relation to the general Federal requirements covering the information required for tax returns, special state laws, the rights of stockholders, and strict conformity to the provisions of its charter and the by-laws adopted by the stockholders.

All the corporate transactions should be carefully recorded. The term "accounting," therefore, should perhaps be employed in a very broad sense to include all records of changes in the business, corporate or financial.

ASSET ACCOUNTS

100 FIXED CAPITAL INSTALLED PRIOR TO JANUARY 1, 1913
101 FIXED CAPITAL INSTALLED SINCE DECEMBER 31, 1912
104 CONSTRUCTION WORK IN PROGRESS
105 INVESTMENT SECURITIES
  106 STOCKS OF SYSTEM CORPORATIONS
    01 OF CONNECTING COMPANIES CONTROLLED
    02 OF CONNECTING COMPANIES NOT CONTROLLED
    03 OF BELL OPERATING COMPANIES
    04 OF OTHER ASSOCIATED COMPANIES
    05 REACQUIRED SECURITIES
  107 FUNDED DEBT OF SYSTEM CORPORATIONS
    01 OF CONNECTING COMPANIES CONTROLLED
    02 OF CONNECTING COMPANIES NOT CONTROLLED
    03 OF BELL OPERATING COMPANIES
    04 OF OTHER ASSOCIATED COMPANIES
    05 REACQUIRED SECURITIES
  108 MISCELLANEOUS STOCKS
  109 MISCELLANEOUS FUNDED DEBT
110 ADVANCES TO SYSTEM CORPORATIONS FOR CONSTRUCTION, EQUIPMENT AND BETTERMENTS
  01 TO AMERICAN TELEPHONE AND TELEGRAPH COMPANY
  05 TO WESTERN ELECTRIC COMPANY
  06 TO BELL OPERATING COMPANIES
  07 TO SUBLICENSED AND OTHER CONNECTING COMPANIES
111 MISCELLANEOUS INVESTMENTS

Working Assets
112 CASH AND DEPOSITS
  113 CASH
  114 SPECIAL DEPOSITS
    01 REACQUIRED SECURITIES
115 EMPLOYEES' WORKING FUNDS
116 MARKETABLE SECURITIES
  01 REACQUIRED SECURITIES
117 BILLS RECEIVABLE
  01 FROM AMERICAN TELEPHONE AND TELEGRAPH COMPANY
  05 FROM WESTERN ELECTRIC COMPANY
  06 FROM BELL OPERATING COMPANIES
  07 FROM SUBLICENSED AND OTHER CONNECTING COMPANIES
  10 FROM MISCELLANEOUS
118 DUE FROM SUBSCRIBERS AND AGENTS
  01 FROM SUBSCRIBERS (LIVE ACCOUNTS)
  02 FROM SUBSCRIBERS (FINAL ACCOUNTS)
  03 FROM SUBSCRIBERS (SUSPENDED ACCOUNTS)
  04 FROM COLLECTORS AND AGENTS
  05 UNBILLED EXCHANGE SERVICE
  06 UNBILLED TOLL SERVICE
  07 RESERVE FOR UNCOLLECTIBLE ACCOUNTS - CR.
119 ACCOUNTS RECEIVABLE FROM SYSTEM CORPORATIONS
  01 FROM A.T.AND T.CO., GENERAL (AND A.B.T.CO.)
  02 FROM A.T.AND T.CO., TRAFFIC (LONG LINES)
  03 FROM A.T.AND T.CO., MISCELLANEOUS (LONG LINES)
  05 FROM WESTERN ELECTRIC COMPANY
  06 FROM BELL OPERATING COMPANIES
  07 FROM SUBLICENSED AND OTHER CONNECTING COMPANIES
120 MISCELLANEOUS ACCOUNTS RECEIVABLE
  01 SPECIAL
  02 MISCELLANEOUS DEBTORS
  03 MISCELLANEOUS SUSPENDED ACCOUNTS
  07 MISC.ACCTS.REC. - FROM SUBSCRIBING TEL. COS.
  08 " " " - FROM WESTERN UNION TELEG.CO
  04 UNBILLED CUSTOM WORK
121 MATURED INTEREST AND DIVIDENDS RECEIVABLE
  01 INTEREST
  02 DIVIDENDS
122 MATERIALS AND SUPPLIES
  01 PLANT SUPPLIES
  02 OFFICE SUPPLIES
  03 POSTAGE
  10 RESERVE FOR SUPPLIES - CR.
    20 RESERVE FOR DEPRECIATION ON USED SUPPLIES - CR.
    30 RESERVE FOR SUPPLY ADJUSTMENT - CR.
123 OTHER CURRENT ASSETS

Accrued Income Not Due
124 UNMATURED INTEREST, DIVIDENDS AND RENTS RECEIVABLE

Deferred Debit Items
125 SINKING FUND ASSETS
  01 REACQUIRED SECURITIES
126 INSURANCE AND OTHER RESERVE FUND ASSETS
  01 REACQUIRED SECURITIES
127 PROVIDENT FUND ASSETS
128 PREPAYMENTS
  129 PREPAID RENTS
  130 PREPAID TAXES
  131 PREPAID INSURANCE
  132 PREPAID DIRECTORY EXPENSE
    01 PREPARING COPY
    02 PRINTING AND BINDING
    05 DISTRIBUTING
    04 SOLICITING ADVERTISEMENTS
    05 DIRECTORIES PURCHASED
    20 TRANSFER TO DIRECTORY EXPENSES - CR.
  133 OTHER PREPAYMENTS
134 UNEXTINGUISHED DISCOUNT ON CAPITAL STOCK
135 UNAMORTIZED DEBT DISCOUNT AND EXPENSE
136 OTHER SUSPENSE
  12 ENGINEERING

Corporate Deficit
137 CORPORATE DEFICIT

LIABILITY ACCOUNTS

Stock
150 CAPITAL STOCK
  01 COMMON STOCKS
    11 REACQUIRED SECURITIES
  02 PREFERRED STOCKS
    12 REACQUIRED SECURITIES
  03 DEBENTURE STOCKS
    13 REACQUIRED SECURITIES
  04 CAPITAL STOCK INSTALLMENTS
151 STOCK LIABILITY FOR CONVERSION OF SECURITIES
152 PREMIUMS ON CAPITAL STOCK

Long Term Debt
153 FUNDED DEBT
  01 BONDED DEBT
    11 REACQUIRED SECURITIES
  02 REAL ESTATE MORTGAGES
    12 REACQUIRED SECURITIES
  03 DEBENTURES
    13 REACQUIRED SECURITIES
  04 FUNDED DEBT INSTALLMENTS
154 RECEIVERS' CERTIFICATES
155 ADVANCES FROM SYSTEM CORPORATIONS FOR CONSTRUCTION, EQUIPMENT AND BETTERMENTS
  01 FROM AMERICAN TELEPHONE AND TELEGRAPH COMPANY
  05 FROM WESTERN ELECTRIC COMPANY
  06 FROM BELL OPERATING COMPANIES
  07 FROM SUBLICENSED AND OTHER CONNECTING COMPANIES

Working Liabilities
156 DIVIDENDS UNPAID
157 BILLS PAYABLE
  01 TO A.T.AND T.CO. AND A.B.T.CO.
  05 TO WESTERN ELECTRIC COMPANY
  06 TO BELL OPERATING COMPANIES
  07 TO SUBLICENSED AND OTHER CONNECTING COMPANIES
  09 TO BANKERS
  10 TO MISCELLANEOUS
158 AUDITED VOUCHERS AND WAGES UNPAID
  01 MISCELLANEOUS CREDITORS
  02 EMPLOYEES' PAYROLLS
  05 EMPLOYEES' SUNDRIES
159 SUBSCRIBERS' DEPOSITS
160 ACCOUNTS PAYABLE TO SYSTEM CORPORATIONS
  01 TO A.T.AND T.CO., GENERAL (AND A.B.T.CO.)
  02 TO A.T.AND T.CO., TRAFFIC (LONG LINES)
  03 TO A.T.AND T.CO., MISCELLANEOUS (LONG LINES)
  05 TO WESTERN ELECTRIC COMPANY
  06 TO BELL OPERATING COMPANIES
  07 TO SUBLICENSED AND OTHER CONNECTING COMPANIES

Fig. 28a: Chart of Accounts of Large Public Utility Corporation

161 MISCELLANEOUS ACCOUNTS PAYABLE
08 Misc. Accts. Pay.-To Western Union Teleg. Co.
10 " " " -To Others
162 MATURED INTEREST, DIVIDENDS AND RENTS UNPAID
163 MATURED FUNDED DEBT UNPAID
164 SERVICE BILLED IN ADVANCE
01 Unearned Exchange Service Revenues
02 Unearned Toll Service Revenues
12 Discount on Toll Coupons - Dr.
05 Other Unearned Revenue
165 OTHER CURRENT LIABILITIES
Accrued Liabilities Not Due
166 TAXES ACCRUED
167 OTHER ACCRUED LIABILITIES NOT DUE
01 Interest
02 Rents
05 Dividends
04-09 Miscellaneous
05 Employees' Stock Purchase Receipts
14 Income Tax Collections
24 Tax on Tax Exempt Bonds
34 Federal Revenue Tax
Deferred Credit Items, and Fixed Capital Reserves
168 UNEXTINGUISHED PREMIUM ON DEBT
169 INSURANCE AND CASUALTY RESERVES
01 Accident
02 Automobile
03 Boiler
04 Burglar
05 Casualty
06 Fidelity
07 Fire
08 Glass
170 LIABILITY ON ACCOUNT OF PROVIDENT FUNDS
01 Reserve for Maintaining Employees' Benefit Fund
02 Employees' Benefit Fund
12 Pensions
22 Accident Disability Benefits
32 Sickness Disability Benefits
42 Death Benefits
142 Accident
242 Sickness
52 Disability Expenses
62 State Insurance
72 Reimbursements from Other Sys. Corps. - Cr.
170A OTHER DEFERRED CREDIT ITEMS
102 RESERVE FOR ACCRUED DEPRECIATION - Cr.
00 Plant
01 Pole Lines
02 Aerial Cable
03 Aerial Wire
04 Underground Conduit
14 Underground Conduit - Main
24 Underground Conduit - Subsidiary
05 Underground Cable
15 Underground Cable - Main
25 Underground Cable - Subsidiary
35 House Cable
06 Submarine Cable
07 Central Office Equipment
17 Central Office Operating Equipment
27 Test Station Apparatus
37 Horse Equipment
47 Exchange Furniture and Fixtures
57 School Equipment
08 Station Equipment
18 Station Apparatus
28 Station Installations
48 Interior Block Wires
58 Private Branch Exchanges
68 Booths and Special Fittings
10 Buildings
20 Office Furniture and Fixtures
30 General Shop Equipment
40 General Stone Equipment
50 General Stable and Garage Equipment
60 General Tools and Implements
103 RESERVE FOR AMORTIZATION OF INTANGIBLE CAPITAL - Cr.
01 Right of Way
02 Other Amortization

Appropriated Surplus
171 SURPLUS INVESTED SINCE DEC. 31, 1912 IN FIXED CAPITAL
172 SURPLUS INVESTED IN SINKING FUNDS
173 OTHER SURPLUS RESERVED
Corporate Surplus
174 CORPORATE SURPLUS UNAPPROPRIATED

FIXED CAPITAL ACCOUNTS

101 FIXED CAPITAL INSTALLED SINCE DECEMBER 31, 1912
Accounts Listed Thereunder, 200 to 274, Inclusive:
*200 INTANGIBLE CAPITAL
201 Organization
202 Franchises
203 Patent Rights
204 Other Intangible Capital
207 RIGHT OF WAY
01 Exchange
02 Toll
*210 LAND AND BUILDINGS
211 Land
212 Buildings
*220 CENTRAL OFFICE EQUIPMENT
221 Central Office Telephone Equipment
01 Manual Offices
02 Panel Machine Switching Offices
03 Step-by-Step Mach. " "
17 Central Office Operating Equipment
27 Test Station Equipment
37 Horse Equipment
222 Other Equipment of Central Offices
47 Exchange Furniture and Fixtures
57 School Equipment
*230 STATION EQUIPMENT
231 Station Apparatus
01 Non-Dial
02 Dial
232 Station Installations
233 Interior Block Wires
234 Private Branch Exchanges
235 Booths and Special Fittings
241 EXCHANGE POLE LINES
242 EXCHANGE AERIAL CABLE
243 EXCHANGE AERIAL WIRE
244 EXCHANGE UNDERGROUND CONDUIT
14 Exchange Underground Conduit - Main
24 Exchange U.G. Conduit - Subsidiary
245 EXCHANGE UNDERGROUND CABLE
15 Exchange Underground Cable - Main
25 Exchange Underground Cable - Subsidiary
35 House Cable
246 EXCHANGE SUBMARINE CABLE
251 TOLL POLE LINES
252 TOLL AERIAL CABLE
253 TOLL AERIAL WIRE
254 TOLL UNDERGROUND CONDUIT
255 TOLL UNDERGROUND CABLE
256 TOLL SUBMARINE CABLE
*260 GENERAL EQUIPMENT
261 Office Furniture and Fixtures
262 General Shop Equipment
263 General Stone Equipment
264 General Stable and Garage Equipment
01 Teams
02 Motor Vehicles
03 Garage and Motor Vehicle Repair Shop
04 Camp Equipment
05 Other Equipment
265 General Tools and Implements
01 Special
02 Other Tools
268 INTEREST DURING CONSTRUCTION
*270 UNDISTRIBUTED CONSTRUCTION EXPENDITURES
271 Engineering and Superintendence
272 Law Expenditures during Construction
273 Taxes during Construction
274 Miscellaneous Construction Expenditures
280 UNAPPRAISED PROPERTY PURCHASED

* Class B Accts. subdivided for A Companies

Fig. 28a—Continued

INCOME ACCOUNT

I. OPERATING INCOME

500 TELEPHONE OPERATING REVENUES
501 TELEPHONE OPERATING EXPENSES
502 OTHER OPERATING REVENUES
503 OTHER OPERATING EXPENSES
504 UNCOLLECTIBLE OPERATING REVENUES
505 TAXES ASSIGNABLE TO OPERATIONS

II. NONOPERATING REVENUES

510 RENT REVENUES FROM LEASE OF TELEPHONE PLANT
511 MISCELLANEOUS RENT REVENUES
512 DIVIDEND REVENUES
513 INTEREST REVENUES
01 Interest Earned
02 Interest Charged Construction
514 SINKING AND OTHER RESERVE FUND ACCRETIONS
515 PROFITS FROM OPERATIONS OF OTHERS
516 MISCELLANEOUS NONOPERATING REVENUES

III. NONOPERATING REVENUE DEDUCTIONS

520 RENT EXPENSE
521 MISCELLANEOUS NONOPERATING EXPENSE
522 NONOPERATING TAXES
523 UNCOLLECTIBLE NONOPERATING REVENUES

IV. DEDUCTIONS FROM GROSS INCOME

530 RENT DEDUCTIONS FOR LEASE OF TELEPHONE PLANT
531 RENT DEDUCTIONS FOR TELEPHONE OFFICES
532 RENT DEDUCTIONS FOR CONDUITS, POLES & OTHER SUPPORTS
533 RENT DEDUCTIONS FOR INSTRUMENTS AND EQUIPMENT
534 MISCELLANEOUS RENT DEDUCTIONS
535 INTEREST DEDUCTIONS FOR FUNDED DEBT
536 OTHER INTEREST DEDUCTIONS
537 LOSS ON OPERATIONS OF OTHERS
538 AMORTIZATION OF DEBT DISCOUNT AND EXPENSE
539 RELEASE OF PREMIUMS ON DEBT - CR.
540 AMORTIZATION OF LANDED CAPITAL
541 MISCELLANEOUS DEDUCTIONS FROM INCOME

V. DISPOSITION OF NET INCOME

550 APPROPRIATIONS OF INCOME TO SINKING AND OTHER RESERVE FUNDS
551 DIVIDEND APPROPRIATIONS OF INCOME
01 Dividends on Common Stock
02 Dividends on Preferred Stock
05 Dividends on Debenture Stock
552 APPROPRIATIONS OF INCOME FOR CONSTRUCTION, EQUIPMENT AND BETTERMENTS
553 MISCELLANEOUS APPROPRIATIONS OF INCOME

CORPORATE SURPLUS OR DEFICIT ACCOUNT

I. CREDITS

400 CREDIT BALANCE TRANSFERRED FROM INCOME ACCOUNT
401 MISCELLANEOUS ADDITIONS TO SURPLUS

II. DEBITS

410 DEBIT BALANCE TRANSFERRED FROM INCOME ACCOUNT
411 APPROPRIATIONS OF SURPLUS TO SINKING AND OTHER RESERVE FUNDS
412 DIVIDEND APPROPRIATIONS OF SURPLUS
01 Dividends on Common Stock
02 Dividends on Preferred Stock
03 Dividends on Debenture Stock
413 REALIZED DEPRECIATION NOT COVERED BY RESERVES
414 AMORTIZATION UNPROVIDED FOR ELSEWHERE
415 APPROPRIATIONS OF SURPLUS FOR CONSTRUCTION, EQUIPMENT AND BETTERMENTS
416 MISCELLANEOUS APPROPRIATIONS OF SURPLUS
417 OTHER DEDUCTIONS FROM SURPLUS

OPERATING REVENUE ACCOUNTS

I. EXCHANGE SERVICE REVENUES

500 SUBSCRIBERS' STATION REVENUES
50 Service Connection Charges
501 PUBLIC PAY STATION REVENUES
502 MISCELLANEOUS EXCHANGE SERVICE REVENUES
503 Service Stations
504 Private Exchange Lines
505 Minor Rents of Exchange Plant
506 Other Exchange Revenues

II. TOLL SERVICE REVENUES

510 MESSAGE TOLLS
511 MISCELLANEOUS TOLL SERVICE REVENUES
512 Leased Toll Lines
513 Telegraph Tolls
514 Telegraph Service on Toll Lines
515 Minor Rents of Toll Plant
516 Other Toll Revenues

III. MISCELLANEOUS OPERATING REVENUES

520 MESSENGER SERVICE
521 TELEGRAPH COMMISSIONS
522 OTHER TELEGRAPH SERVICE CHARGES
523 ADVERTISING AND DIRECTORY
524 RENTS FROM OTHER OPERATING PROPERTY
525 OTHER MISCELLANEOUS REVENUE
526 LICENSEE REVENUE - CR.
527 LICENSEE REVENUE - DR.

OPERATING EXPENSE ACCOUNTS

I. MAINTENANCE EXPENSES

601 SUPERVISION OF MAINTENANCE
602 REPAIRS OF AERIAL PLANT
01 Pole Lines
02 Aerial Cable
03 Aerial Wire
09 Right of Way
603 REPAIRS OF UNDERGROUND PLANT
04 Underground Conduit
14 Underground Conduit - Main
24 Underground Conduit - Subsidiary
05 Underground Cable
15 Underground Cable - Main
25 Underground Cable - Subsidiary
35 House Cable
06 Submarine Cable
19 Right of Way
604 REPAIRS OF CENTRAL OFFICE EQUIPMENT
01 Manual Office Telephone Equipment
02 Panel Office Telephone Equipment
03 Step-by-Step Office Telephone Equipment
04 Other Equipment of Central Offices
47 Operating and Terminal Rooms
57 School Equipment
67 Lunch Rooms
77 Other Operators Quarters
17 Central Office Operating Equipment
27 Test Station Apparatus
37 Horse Equipment
605 REPAIRS OF STATION EQUIPMENT
18 Station Apparatus (Field)
01 Non-Dial
02 Dial
28 Installations
48 Interior Block Wires
58 Private Branch Exchanges
68 Booths and Special Fittings
08 Station Apparatus (Shop)
606 REPAIRS OF BUILDINGS AND GROUNDS
607 STATION REMOVALS AND CHANGES
03 Aerial Wire
28 Installations
48 Interior Block Wires
58 Private Branch Exchanges
68 Booths and Special Fittings
78 Moves Charged Subscribers - Cr.
608 DEPRECIATION OF PLANT AND EQUIPMENT
609 EXTRAORDINARY DEPRECIATION
610 OTHER MAINTENANCE EXPENSES
611 REPAIRS CHARGED TO RESERVES - CR.

II. TRAFFIC EXPENSES

620 CENTRAL OFFICE SUPERINTENDENCE
621 Traffic Superintendence
20 Transfer to Construction - Cr.
622 Service Inspection
623 Operating Clerical Wages
624 Operators' Wages
01 Manual Offices
02 Panel Machine Switching Offices
03 Step-by-Step Machine Switching Offices
11 Telephone
21 Telegraph
625 CENTRAL OFFICE SUPPLIES AND EXPENSES
626 Rest and Lunch Rooms
01 Lunch Rooms - Food Supplies
11 Lunch Rooms - Salaries and Wages
15 Lunch Rooms - Traveling
16 Lunch Rooms - Other Supplies and Expenses
20 Lunch Room Receipts - Cr.
21 Other Quarters - Salaries and Wages
26 Other Quarters - Other Supplies and Expenses

Fig. 28a—Continued

625 CENTRAL OFFICE SUPPLIES AND EXPENSES (CONTINUED)
627 Operators' Schooling
628 Transmission Power
01 Power Furnished by Company
02 Power Purchased
629 Central Office Stationery and Printing
01 Operating
02 Lunch Rooms and Other Quarters
630 Messenger Service
631 Miscellaneous Central Office Expenses
01 Operating
12 Lunch Rooms - House Service
15 Lunch Rooms - Laundry
22 Other Quarters - House Service
25 Other Operators Quarters - Laundry
632 PAY STATION EXPENSES
635 OTHER TRAFFIC EXPENSES
635 LEASED LINE OPERATING EXPENSES (OPTIONAL ACCOUNT)
20 Leased Line Superintendence
21 Superintendence
22 Service Inspection
23 Clerical Wages
24 Operators' Wages
25 Supplies and Expenses
26 Rent and Lunch Rooms
27 Operators' Schooling
28 Transmission Power
01 Power Furnished by Company
02 Power Purchased
29 Stationery and Printing
30 Messenger Service
31 Miscellaneous

III. COMMERCIAL EXPENSES

640 COMMERCIAL ADMINISTRATION
10 General Commercial Administration
20 Transfer to Construction - Cr.
30 Local Commercial Administration
641 PROMOTION EXPENSES
642 Advertising
17 Pay Station Signs
643 Canvassing
644 Public Service Relations
645 COLLECTION EXPENSES
646 Revenue Accounting
647 Revenue Collecting
648 Pay Station Commissions
649 DIRECTORY EXPENSES
650 OTHER COMMERCIAL EXPENSES

IV. GENERAL AND MISCELLANEOUS EXPENSES

660 GENERAL OFFICE SALARIES
661 Salaries of General Officers
01 Executive Department
02 Accounting Department
05 Financial Department
662 Salaries of General Office Clerks
01 Executive Department
02 Accounting Department
05 Financial Department
663 GENERAL OFFICE SUPPLIES AND EXPENSES
664 Expenses of General Officers and Clerks
01 Executive Department
02 Accounting Department
05 Financial Department
665 General Office Stationery and Printing
01 Executive Department
02 Accounting Department
05 Financial Department
666 Other General Office Supplies and Expenses
01 Executive Department
02 Accounting Department
05 Financial Department
667 GENERAL LAW EXPENSES
01 Salaries of Counsel and Assistants
02 Salaries of Clerks
04 Expenses
05 Stationery and Printing
06 Other Office Supplies and Expenses
07 Attorneys' Fees and Costs
668 INSURANCE
Premiums
01 Accident
02 Automobile
03 Boiler
04 Burglar
05 Casualty
06 Fidelity
07 Fire
08 Glass

668 INSURANCE (CONTINUED)
Appropriations
11 Accident
12 Automobile
13 Boiler
14 Burglar
15 Casualty
16 Fidelity
17 Fire
18 Glass
20 Transfer to Construction - Cr.
669 ACCIDENTS AND DAMAGES
20 Transfer to Construction - Cr.
670 LAW EXPENSES CONNECTED WITH DAMAGES
20 Transfer to Construction - Cr.
671 MISCELLANEOUS GENERAL EXPENSES
672 Relief Department and Pensions
01 Provision for Maintaining Emp. Benefit Fund
02 Administrative Expenses
03 Other Benefit Payments
13 Sickness
25 Miscellaneous
04 Reimbursements to Other Svg. Corporations
05 Military Service
673 Telephone Franchise Requirements
674 Amortization of Franchises and Patents
675 Other General Expenses
676 Telephone Franchise Requirements - Cr.
690 GENERAL EXPENSES CHARGED CONSTRUCTION - CR.

CLEARING ACCOUNTS

701 SHOP EXPENSE
702 STABLE AND GARAGE EXPENSE
11 Salaries and Expenses - General Supervision
12 Salaries and Expenses - Chauffeurs
13 Rents and Repairs of Rented Quarters
14 Rents for use of Motor Vehicles
15 Gasoline
16 Oil
17 Repairs Due to Ordinary Wear (Exc. to Tires & Tubes)
18 Repairs Due to Accident (Exc to Tires & Tubes)
19 Tire and Tube Repairs
20 Tire and Tube Replacements
21 Garage Service
22 License Fees
23 Operation of Motor Vehicle Repair Shops
24 Deprec. of Motor Vehicles and Auxiliary Equip
25 Deprec. of Garage and Repair Shop Equipment
26 Miscellaneous
30 Recoveries from Insurance Cos and Others - Cr.
40 Clearance of Motor Vehicle Expense - Cr.
703 TOOL EXPENSE
01 Special Tools and Implements
02 Other Tools
704 SUPPLY EXPENSE
11 Salaries and Wages
12 House Service and Rents Paid
13 Traveling
14 Postage, Printing and Stationery
15 Furniture Expense
16 Miscellaneous
20 Unassignable Discounts Recovered - Cr.
28 Undistributed Freight and Cartage
29 Western Electric Service
30 Supply Adjustment
705 ENGINEERING EXPENSE
11 Salaries and Wages
12 House Service and Rents Paid
13 Traveling
14 Postage, Printing and Stationery
15 Furniture Expense
16 Miscellaneous
706 PLANT SUPERVISION EXPENSE
01 Supervision
11 Salaries and Wages
31 Supervision
41 Clerical
12 House Service and Rents Paid
13 Traveling
14 Postage, Printing and Stationery
15 Furniture Expense
16 Miscellaneous
02 Engineering
21 Salaries and Wages
22 House Service and Rents Paid
23 Traveling
24 Postage, Printing and Stationery
25 Furniture Expense
26 Miscellaneous
707 HOUSE SERVICE EXPENSE
708 CUSTOM WORK (OPTIONAL ACCOUNT)
711 LOCAL PLANT ADMINISTRATION
11 Salaries and Wages
13 Traveling

Fig. 28a—Concluded

Chart of Accounts
UNITED ARTISTS CORPORATION
ASSETS ACCOUNTS

101 — CASH

01 Central Hanover Trust Company
02—3—4—5 Various New York depositories
06 Branch office depositories
07 Cash in transit

102 — CONTINGENT FUND ADVANCES

01 Home Office
02 Branch Offices
03 Petty Cash

103 — NOTES RECEIVABLE

103A—NOTES RECEIVABLE DISCOUNTED

104 — ACCOUNTS RECEIVABLE FROM BRANCH OFFICES

A Refunds
B Interbranch Transfers

105 — CUSTOMERS ACCOUNTS (OLD SYSTEM)

106 — ACCOUNTS RECEIVABLE FROM PRODUCERS

01 Studio Account No. 1
02 Studio Account No. 2
03 Studio Account No. 3
Etc. Etc.
16 Music Copyright Expenditures Advanced

107 — ACCOUNTS RECEIVABLE MISCELLANEOUS

01 Employees Loans
02 Theatre Circuit

108 — ACCOUNTS RECEIVABLE FROM DOMESTIC SUBSIDIARIES

109 — ACCOUNTS RECEIVABLE FROM FOREIGN SUBSIDIARIES

11 English Company
12 French Company
13 Australasian Company
Etc. Etc.

Fig. 28b: Chart of Accounts of Large Motion Picture Corporation

109A—ACCOUNTS RECEIVABLE FOREIGN—MISCELLANEOUS

01 Foreign Customer (by name)
Etc. Etc.

110 — ACCESSORIES PURCHASES

01 Domestic
02 Foreign
03 Cristobal
04 Havana
05 Porto Rico

110 — ACCESSORIES IN TRANSIT

111 — FURNITURE & FIXTURES

112 — INVESTMENTS IN STOCKS OF SUBSIDIARY COMPANIES

112A—EQUITY CONTINENTAL EUROPE

113 — CAPITAL STOCK REACQUIRED

121 — PREPAID OPERATING EXPENSES

01 Deposits
02 Prepaid Rent
18 Miscellaneous

131 — PROTESTED CHECKS

141 — SUSPENSE

144 — PRINTS PURCHASED FOR RE-SALE

151 — 01 — ARTISTS CONTRACTS

LIABILITY ACCOUNTS

201 — NOTES PAYABLE

202 — VOUCHERS PAYABLE

206 — ACCOUNTS PAYABLE TO PRODUCERS

207 — ACCOUNTS PAYABLE MISCELLANEOUS

03 Miscellaneous
10 N. Y. State — Non-Resident Tax Account
11 U. S. Govt. — Non-Resident Tax Account

Fig. 28b:—Continued

208 — ACCOUNTS PAYABLE DOMESTIC SUBSIDIARIES

209 — ACCOUNTS PAYABLE AS PER AGENT FOR

12 Foreign Subsidiary (by name)
Etc. Etc.

211 — RESERVE FOR DEPRECIATION OF FURNITURE & FIXTURES

212 — RESERVE FOR EMPLOYEES BENEFIT PLAN

213 — CHARGES AGAINST RESERVE FOR EMPLOYEES BENEFIT PLAN

01 Sickness Disability Benefits
11 Accident Disability Benefits
21 Life Insurance Premiums
31 Disability Expenses

216 — ACCOUNTS PAYABLE TO PRODUCERS—JUNK FILM

226 — ACCOUNTS PAYABLE TO PRODUCERS—DRAWBACKS

226A—ACCOUNTS PAYABLE DRAWBACK COMMISSIONS—C. J. HOLT & COMPANY, INC.

230 — PART PAYMENTS FROM EXHIBITORS

231 — OVER PAYMENTS

232 — ADVANCE DEPOSITS UNAPPLIED

233 — DEPOSITS—(SPECIAL)

A Theatre Circuit
B " "

234 — SALES OF FOREIGN RIGHTS—NOT DUE

240 — UNPLAYED BUSINESS

240A—UNPLAYED BUSINESS—SPECIAL

241 — SUSPENSE

250 — PROFIT & LOSS

251 — SURPLUS

Fig. 28b:—Continued

260 — CAPITAL STOCK

01 Preferred
02 Common

261 — SUBSCRIBERS TO CAPITAL STOCK

INCOME ACCOUNTS

300 — FILM RENTALS—PLAYED & EARNED (100%)

A Film Rental Billings

300X—SOUND RENTALS—PLAYED & EARNED (100%)

309 — SALES OF PRINTS

310 — SALES OF ACCESSORIES

01 Domestic
02 Foreign

311 — COMMISSIONS FROM DOMESTIC SUBSIDIARIES

312 — COMMISSIONS FROM FOREIGN SUBSIDIARIES

31 Foreign Subsidiary (by name)
Etc. Etc.

312A—PROFIT CONTINENTAL EUROPE

313 — COMMISSIONS FROM SALES OF FOREIGN RIGHTS

314 — RENT REVENUE FROM TRAILERS

316 — INTEREST EARNED

316A—DISCOUNTS EARNED

317 — INCOME FROM ROAD SHOWS

318 — ROYALTY A/c HERALDS

319 — PROFIT OR LOSS ON FOREIGN EXCHANGE

320 — MISCELLANEOUS INCOME

338 — INCOME FROM RECLAIMED PRINTS—FOREIGN

Fig. 28b:—Continued

EXPENSE ACCOUNTS

400 — PRODUCERS SHARE OF FILM RENTALS

401 — AUDITORS FEES

402 — STOLEN FILM EXPENSE

403 — EMPLOYEES BENEFIT PLAN

404 — OTHER EMPLOYEES BENEFIT PAYMENTS

405 — TAXES

406 — UNCOLLECTIBLE ACCOUNTS

410 — TRANSPORTATION ON ACCESSORIES

A Duty on Accessories
B Accessories Gratis

411 — DEPRECIATION OF FURNITURE

414 — TRAILERS COST

416 — INTEREST (EXPENSE) & BANK CHARGES

418 — UNITED ARTISTS ATHLETIC ASSOCIATION

420 — ACCESSORIES PRELIMINARY COST

421 — COMMISSIONS TO DOMESTIC SUBSIDIARIES

422 — FOREIGN ADMINISTRATION EXPENSE

11 Salaries Administrative
11A—Salaries Abroad
41 Salaries Accounting
51 Salaries Advertising and Publicity
13 Traveling
15 Telephone & Telegraph
18 Miscellaneous
37 Foreign Publicity

423 — OTHER EXPENSES

01 Cristobal
02 Havana
03 Porto Rico

444 — CORPORATION'S SHARE OF PRINTS, DUTIES, Etc.

458 — HAYS' ORGANIZATION DUES (EXPENSE) CANADA

Fig. 28b:—Continued

705 — BRANCH OFFICE OPERATING EXPENSES

31 Salaries—Sales
41 Salaries—Check-up Men
51 Salaries—Exploitation Men
61 Salaries—Bookers, Inspectors and Clerical
33 Traveling Expense—Sales
43 Traveling Expense—Check-up Men
53 Traveling Expense—Exploitation Men
12 Rent and House Service
14 Stationery and Printing
15 Telephone & Telegraph
16 Postage
17 Freight and Cartage
18 Miscellaneous
28 Alterations and Repairs
38 Film Maintenance
48 Screening
48 Association Dues

706 — HOME OFFICE OPERATING EXPENSES

11 Salaries—Administrative
31 Salaries—Sales
31A—Salaries—Sales Promotion
31C—Salaries—Contract Department
41 Salaries—Accounting
51 Salaries—Advertising and Publicity
61 Salaries—Traveling Auditors
71 Salaries—Film Maintenance
12 Rent and Home Service
12A—Rental of Equipment
12B—Warehouse Rent and House Service
13 Traveling Expense
63 Traveling Expense—Auditors
14 Stationery and Printing
15 Telephone & Telegraph
16 Postage
17 Freight and Cartage
18 Miscellaneous
28 Alterations and Repairs
38 Film Maintenance
19 Attorneys' Fees
20 Insurance
32 Trade Paper Advertising
33 General Advertising
34 Campaign Books
35 Exploitation
36 Sales Promotion
37 General Publicity
39 House Organ
58 Hays' Organization Dues
68 Shipping Supplies
42 Corporation's Share of Trade Advertising
43 Corporation's Share of National Advertising

Fig: 28b:—Concluded

CHAPTER X

CAPITAL STOCK

Definition of Capital Stock

Various definitions of capital stock are encountered. A definition sometimes quoted is that laid down by a New Jersey court as "the sum total fixed by the charter or articles of incorporation, as the amount paid in or to be paid in as the capital upon which the corporation is to do business." This definition, however, does not take into consideration the distinction under the statutes of authorized capital stock and issued capital stock. The authorized capital stock of a corporation is the amount of stock it is authorized to issue by its charter. The issued capital stock is the amount of stock actually issued for a consideration permitted by statute. It is true that the amount of authorized capital stock can be changed only by an amendment of the charter. This is in accordance with the principle that all definitions in the charter must be modified with a formality of procedure comparable to the original issuance of the charter. The necessary limitation exists that the amount of issued stock of any class cannot exceed the amount of authorized stock of that class. However, the amount actually issued may never equal the amount authorized. The confusion of terminology evidenced by the definition quoted and other definitions resulting from the oversight of the distinction between authorized and issued stock is largely responsible for the erroneous conception of authorized capital stock as the determinant of invested capital; that is, the total investment by stockholders in fixed and current assets in the business. The relation of stockholders' invested capital to the stock has logically to do with issued stock and not with that portion of the authorized stock which has not been and may never be issued.

Legal and Financial Significance of "Capitalization"

The vagueness attaching to the use of the term capital stock is increased by the dual significance of the term capitalization, which, under the statutes relating to capital stock, is employed to designate the total par value or stated value of the corporation's authorized capital stock, while in the language of finance the accepted meaning is the total

par or stated value of the stock outstanding, plus the par value of bonded indebtedness outstanding.

In the financial field capitalization is used synonymously with financial plan. For each corporation which is created some form of capitalization must be set up. In a particular company it may be entirely of capital stock or part stock and part bonds. To determine the correct amount of each to be included in the capitalization requires a thorough knowledge of all phases and angles of finance, of economic and business conditions, of the status of the money market as well as the particular preference of the security-buying public at the time.

Pursuant to modern financial practice the fundamental factor, the starting point in the development of any plan of capitalization is net earnings of the corporation, past, present and probable future. Again the type of industry in which the corporation is engaged plays a large part in influencing the type of financial structure which may be erected. Custom has developed a different type of financial structure, of capitalization, for a railroad, than would be used for a public utility or an industrial corporation. Investors have come to realize that the funded debt of a railroad is a permanent thing. Inasmuch as bonds will not be issued calling for interest obligations in excess of six per cent and if a railroad cannot earn six per cent it cannot justify its economic existence, bonds can normally be issued to an amount approximating the total cost of railroad or permanent improvements.

Such a situation does not exist in the public utility field. In this field one fundamental condition must be met, which is that the average net earnings of a corporation over a period of years must equal at least two or more times the interest requirements of the proposed bond issue and the net minimum after providing for all interest requirements must be double the dividends of the proposed preferred stock issue. In the public utility field the large corporations are tending toward what might be called a standard plan of capitalization. Under this standard plan the capitalization consists of one-half funded debt, one-fourth preferred stock and one-fourth common stock.

A public utility is again in a different category from an industrial corporation. A public utility operates under a monopoly, state-granted and state-controlled by which its earnings under a fairly competent management are reasonably certain and steady. An industrial corporation, however operates under no such government-created monopoly. It operates rather in the face of hard unflinching competition. As such its net earnings are subject to all the whims and vicissitudes of economic conditions and social reactions. Consequently in establishing a financial structure for an industrial corporation the investment banker will insist not only on a more conservative financial structure but also one of greater elasticity. Perhaps the banker will demand after an exhaustive analysis that net earnings shall be from two and one-half up to three or even four times interest requirements. By so doing the banker reduces to a minimum the possibility of financial embarrassment in times of business depression. At the same time a greater proportion of stock may be included in the capitalization to absorb the surplus earnings in exceptionally good times.

Relation of Issued Capital Stock to Capital

Considering the capital of the corporation as the capital contributed by stockholders, there is theoretically an equivalence under the law between the capital and issued capital stock at the time of issuance, provided that, first, the directors have accurately valued any consideration other than money which has been exchanged for the stock, and, second, any stock so exchanged that has been donated to the treasury is sold at par value or at stated value in case the shares bear no par value. In practice, however, the fact is that under the statutes and decisions in various jurisdictions a considerable margin of discretion is allowed to the directors, resulting in watered stock. Briefly, the courts have three different views in deciding cases involving the question of whether stock was legally issued for adequate value. The view taken by the Missouri courts, usually referred to as the "true value" rule, is that the stock outstanding must correspond to the "true value" of the property accepted in exchange for it regardless of the beliefs of the parties to the transaction. The view taken by the New Jersey courts and those of some other states, usually referred to as the "reasonable cash value" rule, may be stated as the price that the directors would reasonably have paid in money if the transaction had been for cash. The more liberal view taken by the courts of New York, and other states, usually referred to as the "good faith" rule, is that the sole point at issue is the good faith of the directors, and unless bad faith is established, or intentional overvaluation of the property, the evidence of actual value is immaterial. Although an exhaustive discussion of the reasons underlying these three classes of decisions would hardly be appropriate in this chapter, certain observations of outstanding features of these cases may perhaps be made advantageously. The courts of

all states are united in their attitude that the value of the property is its value to the corporation for the specific use intended at the time the exchange is effected, but are equally as positive that estimates of future earnings are not the proper basis of valuation, although the degree of probability of such earnings has played a notable part in their considerations. In Hasson *v.* Koeberle, (1919) 180 Cal. 359, the Court says, "We do not mean to say that prospective earning capacity, properly subordinated to other modes of ascertaining value, may not be considered in determining present cash value. We are compelled to conclude, however, that the Court adopted a prospective earning power as the standard of value and did not consider it as merely some evidence of present cash value, which, upon a review of the cases, we take to be the standard approved by them. It was the duty of the Court to determine this value by ascertaining as nearly as possible what a reasonably prudent investor who contemplated spending his own money would have been willing to pay for the Ord Mountain claims under the circumstances under which the corporators acted on the date of the transfer."

According to the financial practices of the country's largest banking houses, the earning power of the business is often the correct basis of capitalization, and this coincides with the reasoning of leading economists that the only accurate way to determine present value is to discount expected income. The result of the disagreement of the courts of many states with what has been deemed by prominent financiers and economists to be sound financial practice, is that through avoidance of unfavorable jurisdictions and other legal means the capitalization of earning power has been effected.

Capital Stock and Proprietary Interests

The Capital Stock account reflects the amounts of capital invested in the corporation by its stockholders. The Capital Stock account is therefore similar to the Capital account of an individual proprietor or partnership which shows the capital investment. There is, however, one fundamental difference between the corporate Capital Stock account and the capital investment in an individual proprietor enterprise or partnership business. The contributions of capital by an individual proprietor or by partners would be credited to the Capital Investment account of each individual contributor, whereas in the case of corporations, individual investments in stock are combined in the various capital stock accounts, representing the different classes of stock issued.

The shares of stock of a corporation represent the various interests of the parties in whom the ownership of the corporation is vested. There are different kinds of stock—common and preferred—the preferred covering varying classes of preference. Common stock is the stock of a corporation which is issued to stockholders on an equality basis—no stockholder or share having any rights or advantages over the others. The preferred stock, as the name implies, may have preference as to participation in profits, and to a prior share in the assets in the event of liquidation. Regardless of the kind of stock, the accountant should remember that the amount of capital stock to be issued is fixed by the corporation's charter. The authorized amount can be increased or decreased only by amendment of the charter after application has been made to the state authorities and properly approved.

Accounting Methods for Opening Capital Stock Accounts

The accountant is often confronted with the problem of determining how the capital stock entries are to be made on the books. There are different ways of journalizing these stock transactions. The method which most completely sets forth all the facts of the stock transactions is the one that the accountant should use.

Certain accountants favor the method which places the authorized capital stock on the general ledger. This is the amount the corporation is empowered to issue according to its charter. Other accountants follow the practice of not making any journal entry until sales of the stock have been made and the stock actually issued. There are several advantages, no matter how slight they may seem, in bringing the amount of authorized capital stock into the general ledger. By doing this the authorized amount is always before the accountant, and he is relieved of the necessity of referring to the corporation's minutes or inspecting the charter itself. If there are any increases of the authorized capital stock these will be reflected in the general ledger account, with full information as to dates and amounts of increases. The account in total will then reflect the full authorized capital stock as of a given date. This also holds true as to any decreases in the authorized capital stock account. It may be maintained by those not sanctioning this method that changes in the authorized amounts happen seldom, and when they do the figures and data can be readily obtained from the minutes or charter. On the other

hand it must be conceded that the authorized capital stock represents a part of the bookkeeping scheme and should, therefore, be shown on the general ledger. At least it aids in simplifying accounting procedures by immediately making it easy to obtain the details, without extra clerical effort, when such information is desired.

The two methods, however, of bringing the capital stock into the general ledger are illustrated in the problem which follows. In this case it is assumed that the corporation which is formed issues only common stock.

Illustrations of Two Methods for Opening Books

The stock of a corporation is generally issued for cash, property or services. It is assumed that: The Winchell-Collins Radio Manufacturing Co., Inc., is organized on June 1, 1929 under the laws of the State of New York with an authorized capital stock of 5,000 shares (all common), of the par value of $100 each.

In the examples that follow reference is made to them as Method No. 1, known as "Formal Method," and Method No. 2, known as "Pro Forma Method." The former places the authorized capital stock on the books, and the latter ignores making any entries until the stock has been actually issued. The accountant must keep in mind that when making journal entries, the information should always be sufficiently clear and explanations should be given, wherever possible, supported by the facts or data relating to the transaction.

Method No. 1—Formal

The Winchell-Collins Radio Manufacturing Co., Inc., has received its charter from the Secretary of State. The date of incorporation is June 1, 1929, and now the following journal entry should be made in the general journal:

June 1, 1929

(1) Capital Stock Unissued $500,000
  Capital Stock Authorized $500,000
  To record the incorporation of the Winchell-Collins Radio Manufacturing Co., Inc., organized on June 1, 1929, with an authorized capital stock of $500,000, divided into 5,000 shares of the par value of $100 each.

Note: 2,000 shares of the stock have been subscribed for by the incorporators of the company.

The next transaction is to record the sale of 2,000 shares of capital stock of the company to the incorporators—1,000 shares to A. Winchell, President; 500 shares to W. Collins, Vice-President; and 500 shares to B. Palmer, Treasurer. These men are also directors of the company. The stock has been subscribed for and sold on the basis of 50% cash to accompany subscription, and the balance is to be paid in equal installments of 25% and payable on July 1, 1929 and September 1, 1929.

June 1, 1929

(2) Subscribers to Capital Stock $200,000
  Subscriptions to Capital Stock $200,000
  To record subscriptions to 2,000 shares of capital stock—
    A. Winchell—1,000 shares.
    W. Collins — 500 shares.
    B. Palmer — 500 shares.
  Terms of subscription 50% cash, and 25% payable on July 1, 1929 and 25% payable on September 1, 1929.

Confusion sometimes arises in trying to remember which of the above mentioned accounts is the asset (debit), and which is the accountability (credit). A good way to remember this is to think of the "subscriber" as the person from whom the obligation or account receivable is due, which represents the asset (debit) account.

The first 50% of cash is paid immediately upon receiving the subscriptions.

June 1, 1929

(3) Cash $100,000
  Subscribers to Capital Stock $100,000
  To record receipt of cash, representing 50%, received from the following subscribers—
    A. Winchell (1,000 shares) $50,000
    W. Collins (500 shares) 25,000
    B. Palmer (500 shares) 25,000

In accordance with the terms of the stock subscription, Installment No. 1 for 25% is now due and therefore placed on the books:

July 1, 1929

(4) Installment No. 1 .....$50,000
  Subscribers to Capital Stock $50,000
  To enter first call of 25% on total subscriptions of $200,000 as per subscription list and installment book.

The above mentioned entry is made to set up the amount due at this date—the credit is therefore made to the "Subscribers" account. When the cash is received the next entry will be:

July 1, 1929

(5) Cash $50,000
  Installment No. 1 ..... $50,000
  To record the receipt of Installment No. 1 for 25% of total subscriptions of $200,000.

This entry has been made on the assumption that all of the subscribers have paid Installment No. 1 in full. In the event that installments are not paid in full they will have to be either left open on the books until paid or settled on some basis or other with the subscriber. (See Chapter XIII on Stock Forfeitures and Redemptions.)

The second installment as it becomes due is covered in the same manner as illustrated in the two previous journal entries.

September 1, 1929

(6) Installment No. 2 .....$50,000
  Subscribers to Capital Stock $50,000
  To enter second call of 25% on total subscriptions of $200,000 as per subscription list and installment book.

September 1, 1929

(7) Cash $50,000
  Installment No. 2 ..... $50,000
  To record the receipt of Installment No. 2 for 25% of total subscriptions of $200,000.

As the stock has now been paid for in full, it should be issued to the subscribers and the following entry is accordingly made:

September 1, 1929

(8) Subscriptions to Capital Stock $200,000
  Capital Stock Unissued $200,000
  To record the issuance of 2,000 shares of capital stock of the Company to the following subscribers—
    Certificate No. 1—A. Winchell—1,000 shares.
    Certificate No. 2—W. Collins—500 shares.
    Certificate No. 3—B. Palmer—500 shares.

Where property (assuming machinery valued at $20,000) is given for stock of the company the following entry would be made:

September 1, 1929.

(9) Machinery $20,000
  Capital Stock Unissued $20,000
  To record the issuance of 200 shares of the capital stock of the company to John Williams for Plant Machinery. Approved by board of directors and ratified by stockholders at meeting held, etc.
  Certificate No. 4—John Williams—200 shares

In certain corporations no entries are made to transfer the amount of the installment call from the "Subscribers" account. Instead the call is made in the usual manner by sending out the notice, and when the payments are received they are debited to "Cash" and credited directly to the "Subscribers" account without the necessity of setting up a special "Installment" account.

The General Ledger postings covering these transactions are shown in the following entries. In order to check, follow the postings of journal entries that are numbered.

CAPITAL STOCK UNISSUED

1929	1929
June 1—Capital Stock Authorized No. 1 .....$500,000	Sept. 1—Subscriptions to capital stock No. 8 ...$200,000
	Sept. 1—Machinery No. 9 20,000
	Sept. 1—Balance 280,000
$500,000	$500,000
1929	
Sept. 1—Balance $280,000	

CAPITAL STOCK AUTHORIZED

	1929
	June 1—Capital Stock Unissued No. 1 .....$500,000

*SUBSCRIBERS TO CAPITAL STOCK

1929	1929
June 1—Subscriptions to Capital Stock No. 2 ...$200,000	June 1—Cash No. 3 ....$100,000
	July 1—Installment No. 1 No. 4 50,000
	Sept. 1—Installment No. 2. No. 6 50,000
$200,000	$200,000

*Where there is a large number of subscribers, set up individual accounts in subsidiary Ledger.

SUBSCRIPTIONS TO CAPITAL STOCK

1929		1929	
Sept. 1—Capital Stock Unissued No. 8	$200,000	June 1—Subscribers to Capital Stock No. 2	$200,000
	$200,000		$200,000

CASH

1929			
June 1—Subscribers to Capital Stock No.3	$100,000		
July 1—Installment No. 1. No. 5	$ 50,000		
Sept. 6—Installment No. 2. No. 7	$ 50,000		

**INSTALLMENT NO. 1

1929		1929	
July 1—Subscribers to Capital Stock No. 4	$50,000	July 1—Cash No. 5	$50,000
	$50,000		$50,000

**INSTALLMENT NO. 2

1929		1929	
Sept. 1—Subscribers to Capital Stock No. 6	$50,000	Sept. 1—Cash No. 7	$50,000
	$50,000		$50,000

MACHINERY

1929			
Sept. 1—Capital Stock Unissued No. 9	$20,000		

NOTE:—Balance in Authorized Capital Stock A/C is $500,000
Balance in Unissued Capital Stock A/C is 280,000

Difference in Issued and Outstanding $220,000
For Cash $200,000
For Machinery 20,000
Total $220,000

**Details would appear in Installment Book.

Method No. 2—Pro Forma

Under this method as no amount of the authorized capital stock is placed in the General Ledger all that is necessary is the following explanatory entry (without debit and credit accounts) which is made in the General Journal:

> "The Winchell-Collins Radio Manufacturing Co., Inc., organized this first day of June, 1929 with an authorized capital stock of $500,000 represented by 5,000 shares of stock of the par value of $100 each."

After this initial entry, the journal entries covering subscriptions, installment calls and receipts of cash would be identical with those made under Method No. 1. The only exception would be the journal entry to effect the issuance of the stock, after the full payment of $200,000 had been made. This entry would be as follows:

September 1, 1929

Subscriptions to Capital Stock	$200,000	
Capital Stock (or Capital Stock Issued)		$200,000

To record the issuance of 2,000 shares of the capital stock of the company to the following subscribers:

Certificate No. 1—A. Winchell—1,000 shares.
Certificate No. 2—W. Collins—500 shares.
Certificate No. 3—B. Palmer—500 shares.

Under Method No. 2, the credit complementary part of the journal entry is to cover the actual issuance of the capital stock. As there is no Authorized Capital Stock account appearing on the general ledger (under Method No. 2) the credit must be made to "Capital Stock" or if desired "Capital Stock Issued."

Stock Sold For More Than Par Value

In some instances, although rather infrequently, stock of a newly formed corporation is sold for more than its face value. On the other hand the sale of stock for more than its par value happens often with a company that has shown very profitable results, because its stock will invariably command a price comparable with its book value. When stock of this character is offered for sale it is usually for the purposes of plant expansion or other reasons generally

beneficial to the progress of the company. Stock that is worth more than par is first offered to the stockholders of the corporation who have the right to purchase all or a part of the new issue, either at par or at a price which is higher than the par value. If certain stockholders do not exercise the privilege granted to them to buy the offered stock, these rights may be sold by the stockholders, or as in the case of the larger corporations the rights are traded in, on the Stock Exchange. See Chapter XXIX for discussion on "rights."

The excess amount received by the company for the stock sold at a higher price than par represents a profit. The excess may be credited either to a Premium or other profit account, or directly to a special Surplus account. Although the profit arising from the sale of this stock could be distributed, if sanctioned by law, as dividends by the directors, it would hardly be good business policy to do so, because the proceeds derived from the sale of the stock were primarily intended to be used for expansion purposes. This reasoning would apply to both the par value amount and the premium received for the stock. The principal object of the sale of the stock was to obtain additional capital, and regardless of whether or not the stock was sold at a premium, such excess should not be considered as profit to be distributed as dividends.

The accounting treatment of stock sold for more than par is illustrated by setting up in journal entry form the problem that follows:

The balance of unsubscribed stock of the Brown and Smythe Company, Inc., consisting of 2,000 shares of a par value of $100 each, or a total of $200,000, has been sold on January 10, 1929 to Frank Snyder for $125 a share, or a total of $250,000. The payment for the stock is to be made in cash.

January 10, 1929

Subscribers to Capital Stock (Frank Snyder)	$250,000	
Subscriptions to Capital Stock		$250,000

To record subscription received from Frank Snyder for 2,000 shares of capital stock of the Brown and Smythe Company, Inc., par value $100 a share and sold at a premium of $25 a share, or a total price of $250,000. Payment is to be made in cash upon delivery of the stock.

January 10, 1929

Cash	$250,000	
Subscribers to Capital Stock (Frank Snyder)		$250,000

To record cash received for 2,000 shares of the company's capital stock sold to Frank Snyder for $250,000.

Subscriptions to Capital Stock	$250,000	
Capital Stock Unissued		$200,000
Premium on Capital Stock (or Capital Surplus)		$ 50,000

To record the issuance of 2,000 shares of capital stock of the Brown and Smythe Company, Inc. to Frank Snyder, the par value of which is $200,000, sold for $250,000. (Premium $50,000.)

The premium may remain undisturbed in the Premium on Capital Stock account to be consolidated with the Surplus on the balance sheet. There is no objection to the actual transfer of this stock premium to Surplus, provided, however, that the amount will not be used for the distribution of dividends. In certain companies premium obtained from the sale of stock has been used for the writing off, in whole or in part, of good will, plant equipment, mining property, patent rights, special machinery, or any other asset of doubtful value.

The following journal entry illustrates the accounting procedure of writing off the premium of $50,000 against the asset of good will.

Premium on Capital Stock	$50,000	
Good will		$50,000

To write off the good will of the Brown and Smythe Company, Inc. by transfer of the premium earned on sale of 2,000 shares of the company's capital stock to Frank Snyder.

Issuance of Stock at a Premium to Create a Surplus

Financial enterprises such as banks, trust companies, insurance companies and other financial institutions in many instances sell their stock at a price higher than the par value at the time when the company is incorporated. The plan is followed for the purpose of creating a surplus at the very inception of the company. The reason for this practice is to inspire public confidence by the fact that

the company has an ample margin of safety which is ordinarily required in a financial or banking business. There are certain direct benefits to be derived from the sale of stock at a premium, particularly in the case of a national bank, where every purchaser has a double liability for each share of stock bought. By the sale of the bank's stock at a premium, sufficient first to meet the statutory liability, and second to provide a surplus at the very start of the company, the stockholder is afforded greater protection than if the stock were sold merely at par.

It is assumed that the Pequot National Bank has been incorporated under the Federal banking laws with an authorized capital stock of $500,000 consisting of 5,000 shares of a par value of $100 each. All the stock has been sold at $250 a share, a premium of $150.

The price of $250 a share would include:

Amount of par value of stock	$100.
Premium to protect double liability of stockholder	100.
Premium to create surplus at start of company	50.
Total sale price of stock (including premium of $150)	$250.

The journal entries to express the facts in this transaction would be as follows:

Cash	$1,250,000	
Capital Stock Issued		$500,000
Surplus		750,000

To record the sale of the total authorized capital stock of the Pequot National Bank, consisting of 5,000 shares of a par value of $100 each. The entire block of stock was sold at a premium of 150% or a total sale price of $1,250,000.

The premium of $150 a share is considered contributed surplus, and as the entry indicates is credited to the Surplus account.

Stock Sold For Less Than Par Value

When stock is sold for less than par value the difference between the amount received and the par value of the stock would be debited to a Discount on Stock account. The following problem and journal entries illustrate the accounting procedure:

The Williams Company, Inc. sells 1,000 shares of its capital stock at a par value of $50 a share to B. Russell at a price of $40 a share. The terms of payment are cash upon delivery of the stock.

Cash	$40,000.	
Discount on Stock	$10,000.	
Capital Stock Unissued		$50,000.

To record the issuance of 1,000 shares of capital stock of the Williams Company, Inc. to B. Russell, the par value of which is $50,000 and sold at a discount of $10,000.

The problem that arises is to determine the price at which the stock subscription should be accepted. Should it be at the par value of $50,000 or at the reduced sale price of $40,000? It must be realized, of course, that the stock will have to be issued for $50,000. The subscription contract in this case would probably be subject to a special clause mentioning the discount of $10,000 on the purchase. In most states, however, the sale of stock of original issue for less than par is held to be illegal. In that event original stockholders or those who later purchase the stock with full knowledge of the facts, are always confronted with the liability for the difference between the price paid and the par value of the stock.

The Discount on Stock account would later be closed to Profit and Loss. A better accounting procedure would be to debit Surplus direct or create a special Deficit account for discount so as not to distort the results of the regular operations of the company. These accounts would be combined in one amount and the final or net surplus shown on the balance sheet.

Stock Issued For Services

Under this head of services would be included salaries of officers and other executives of corporations. Commissions and bonuses paid to employees and others are also considered as services. When stock of the corporation is paid wholly or in part for services rendered it is in fact the equivalent of a payment in cash which is assumed to be returned as payment for the stock. The accounting treatment would be to debit the proper salary or other expense account, and credit the full face value of the stock

to either Capital Stock or Capital Stock Unissued where the Authorized Capital Stock account appears on the books. If the stock, however, is issued from Treasury Stock then this account would be credited. The accountant should exercise great care to make certain that proper resolutions have been passed by the Board of Directors as to the agreements to pay stock for services rendered in lieu of cash. The issuance of stock in this manner may affect the interest as to shares, voting powers, etc., of the other stockholders, and, therefore, agreements of this character should be properly authorized and approved. (Reference is made to Section VI for illustration of various resolutions covering salary and compensation arrangements).

It is interesting to note to what extent a corporation can go in the matter of issuing its stock in payment of services. Incidentally this method of settlement of its obligations can be carried a step further and any debts due creditors or others may be paid in the form of stock. The only test that need be applied as to the legality of the issuance of the stock is whether it results in an impairment of capital or whether fair value has been received for the stock issued.

Organization Expenses and Stock Issuances

In organizing a corporation, expenses such as attorneys' and accountants' fees, promoters' services, stock selling expenses, and the usual incorporating expenses are incurred. Certain of these expenses are, of necessity, paid in cash but some of them are paid in the form of company stock. These various items of initial corporate expense are termed organization expenses.

The account "Organization Expenses" is in many instances considered a deferred asset. This is based on the reasoning that expenses incurred at the inception of the corporation should not be charged off against the operations of the first year because the other years that follow receive as much benefit from these expenditures as the first year. Where the item is carried as a deferred asset, sound accounting practice would dictate charging off expense in as short a term of years as possible. This term, depending on the views of the management, may range between one and ten years. It has been the practice of corporations that show excellent earnings to write off the full amount of organization expenses immediately. This practice can be fully appreciated from the standpoint of having the balance sheet show only assets of realizable or productive worth

to the business. Regardless of the method used in charging off organization expenses they are not deductible from the corporation's earnings as stated in the United States Internal Revenue Regulations, an excerpt from which follows:

> "Expenses of the organization of the corporation, such as incorporation fees, attorneys' and accountants' charges, are capital expenditures and not deductible from gross income."

Any stock that may be issued for promoters' or underwriters' services in the creation of the corporate enterprise would be classed as organization expenses, and although issued in good faith by the corporation it is not to be considered a permissible deduction from the company's earnings.

CHAPTER XI

NO PAR VALUE STOCK

The problem of no par value capital stock is one of great interest to the accountant and corporate officer or counsel, as it sets forth a share of stock in a corporation in its true sense; *i. e.*, it represents a mere participation certificate. The theory underlying the issuance of this class of stock is based upon the following factors:

A—A share of stock is a right to participate in the management of a corporation.

B—A right to share in the corporation's earnings.

C—A right to share in the distribution of its assets on dissolution, subject, of course, to the priority rights of any issuances of preferred stock.

In 1892 a special committee on corporation law of the New York Bar Association recommended this form of stock issuance. In 1908 a committee from the Association was appointed to prepare a bill authorizing the issuance of no par value stock and present the bill to the legislature in 1909. The bill failed in 1910 and 1911. It finally became a law, however, on April 15, 1912.

Since that time various states have authorized the issuance of no par value stock. The laws regulating it vary widely in the different states.

The introduction of this class of stock was slow at first, but corporations are increasingly favoring its use, and indications point toward a universal adoption.

Advantages of No Par Value Stock

There are several advantages claimed for the use of no par value stock:

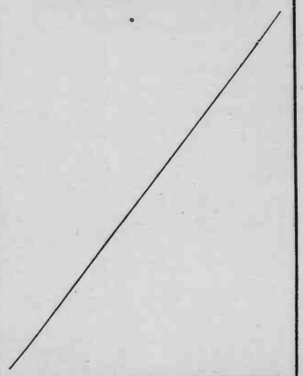
A—Working capital is more easily obtained, as the no par feature makes possible great elasticity of prices in stock sales.

B—By making a low price per share it is often possible to attract investors, because of the opportunities afforded to acquire a substantial interest by a moderate investment.

C—Since there is no fixed valuation, either large or small dividends may be paid without bringing censure on the corporation.

ADVANTAGES AND DISADVANTAGES OF NO PAR VALUE STOCK

ADVANTAGES	DISADVANTAGES
(1) Par value shown on shares of stock is not evidence of its true value.	(1) Without definite nominal price, may be difficult to make prospective purchaser believe there is stability of value behind stock.
(2) *Working capital can be more readily obtained as stock can be sold at any price.	(2) Organization fees, transfer charges, stock taxes, etc., in foreign states may be calculated on basis of arbitrary value far in excess of fair value.
(3) No fixed capitalization, therefore dividends large or small may be paid without bringing censure on corporation directors.	(3) Various methods of accounting for sales in excess of original sales price, lead to confusion in proper distinction between what constitutes "capital invested" and surplus actually earned on "regular" operations if correct accounting is not reflected in books.
(4) Investor may buy stock at any price without incurring additional liability beyond purchase price.	
(5) Places investor on guard to inquire into value of stock before paying "asked price."	
(6) Low price (usually) of stock brings about democratization of investment.	
(7) **Eliminates need of organizers to resort to sale of so-called treasury stock which may be sold at any price.	
(8) Where concerns are purchased or consolidated, excess capitalization can be set up as good will, etc., at reasonable figure.	
(9) Gives flexible sales price per share which may be based on company's financial status at certain time.	



*In certain states where minimum price is fixed, shares of stock cannot be sold for less than "minimum" fixed by law.

**Creditors, of course, have legal right to test "value" of property received as consideration for stock issue.

Fig. 29: Chart of Advantages and Disadvantages of No Par Value Stock

D—To the investor it means that he may buy the stock at any price without involving himself in additional liability for anything beyond the purchase price.

E—It places the investor on his guard to inquire into the value of the stock he intends buying before he purchases it. Some losses are thereby avoided, that may otherwise be incurred in the purchase of par value stock which is bought at par or above without knowing its true value.

As far as the accountant is concerned, his aims, as in all cases, should be to show the facts as they are. He should carefully study the laws under which the corporation is organized, because of the varying statutory requirements of the different states.

The books should always show the number of shares authorized, the amounts paid in to date for shares subscribed, the shares issued and those held as unissued stock, and finally the surplus earned to date. The same necessity exists for showing, in the stock ledger record, the number of shares, etc., held by each stockholder, as in the case where stock is issued having a par value. The true nature of no par value shares must always be kept in mind; that they are simply participation certificates, having no nominal value, which may be sold for any amount, subject, however, to sale at a certain fixed minimum price in some states. This means that the actual capital stock of a corporation using this class of stock is made up of the consideration received by it in exchange for its stock certificates. The proceeds of the sale of different classes of stock (preferred and common with par value) should not be merged. That part of the consideration for the shares represented by the excess over "fixed minimum" or "assumed arbitrary value," should not be credited to surplus and made the basis for the payment of dividends. The total capital stock as shown by the balance sheet should, therefore, be the full amount paid for the stock at its original sales prices.

Accounting Procedure

The first accounting problem is to frame an entry in order to record the corporation's authorized capital stock. Various reasons are set forth in Chapter X for having the accounts show the amount of stock a corporation is empowered, under its charter, to issue. This is done by means of the following journal entry:

	APPLIES TO CASE	DEBIT	CREDIT
CASE "A"			
Where corporation is organized in States not requiring fixed minimum price and does not desire to place an arbitrary value on its stock.		None	Merely make *pro-forma* (memorandum) entry in general journal for number of shares of capital stock corporation is empowered to issue. Also post memorandum entry to credit side of general ledger explanatory column in account "Capital Stock—No Par"
CASE "B"			
In States where fixed minimum price is prescribed. (Use fixed minimum price as basis.)		Capital Stock—No Par Unissued	Capital Stock—No Par —Authorized
In States where no fixed minimum is required. (Corporation, however, assumes arbitrary value based upon original subscription price.)		Capital Stock—No Par Unissued	Capital Stock—No Par —Authorized
The opposite journal entries apply to above mentioned cases (when corporation receives subscriptions.)	"A" and "B"	Subscribers to Capital Stock—No Par	Subscriptions to Capital Stock—No Par
When installment calls are made by corporation.	"A" and "B"	Installment No. 1 (etc.)	Subscribers to Capital Stock—No Par
When payments are received for installment calls.	"A" and "B"	Cash	Installment No. 1 (etc.)
When stock is issued by corporation.	"B" only	Subscriptions to Capital Stock—No Par	Capital Stock—No Par —Unissued
Where stock is issued by corporation that has not assigned either "fixed minimum" or "assumed arbitrary value."	"A" only	Subscriptions to Capital Stock—No Par	Capital Stock—No Par (Issued)
Where property is received by corporation for its capital stock.	"A" only	Property (Specific Asset)	Capital Stock—No Par (Issued)
	"B" only	Property (Specific Asset)	Capital Stock—No Par (Unissued)

The journal entries shown above are in accordance with the accounting theory that the "full" sales price of all shares of no par stock represents "capital invested," no portion of which price even though in excess of the "fixed minimum" or "assumed arbitrary value" represents "surplus."
For other accounting treatment of these "excess amounts" read discussion in text.

Fig. 30: Composite Journal Entry Chart for Capital Stock: No Par Value

June 1, 1928

Capital Stock Unissued $500,000
  Capital Stock Authorized $500,000

To record the incorporation of the Winchell-Collins Radio Manufacturing Co., Inc., organized on June 1, 1928 with an authorized capital stock of $500,000 divided into 5,000 shares of par value of $100 each.

In the case of no par value shares, since the stock has no nominal value attaching to it, and its selling price is not definitely determined, there is no logical value which may be used as the basis for an entry such as that illustrated above. Yet the corporation should show in its books the number of no par shares which may be issued under the terms of its charter. A memorandum entry should, therefore, be made in the general journal on the date of incorporation to read somewhat as follows:

Journal Entry No. 1.

The Harris-Holmes Furniture Manufacturing Co., Inc., has been organized this fifth day of July 1928 under the laws of the State of New York for the purpose of manufacturing and selling kitchen and household equipment. The authorized capital stock consists of 5,000 shares without par value.

This entry is then posted to the explanation column of the credit side of the Capital Stock (no par value) account under the date of July 5, 1928. There is now available for examination to any person, who so desires, a permanent record of the number of shares authorized.

Should there, at any future time, be increases or decreases in the number of shares authorized, memorandum entries similar to that in the previous illustration would then have to be made. It must be understood, however, that if it is merely a matter of transferring certificates from one stockholder to another, then no entry, of course, would be made in the general ledger Capital Stock account. These transfers would affect only the individual stockholders' accounts.

"Fixed Minimum" Procedure

In certain states where a fixed minimum capital is required, there are some accountants who maintain that a "money value" entry should be made instead of only a memorandum journal entry. The entry (with the fixed statutory value for the no par stock) would be the same as that made where the capital stock bears an actual par value. This method, however, is hardly a justifiable one. The sole purpose in requiring a stated capital is to safeguard creditors. There was no intention on the part of the law to have a value placed on "no par shares" to accommodate certain accounting procedures.

Another plan is to assign an assumed arbitrary minimum value to each share authorized, and use that figure as the basis of a journal entry. The same reasoning holds true here as where a stated capital is required.

Still a further suggestion is sometimes made that the original subscription price be used as the basis of a money entry to arrive at and record an assumed authorized amount. It can be readily seen, however, that this price has nothing to do with the balance of stock which still remains unsold.

Subscription Procedure

When a corporation sells its no par value stock, or receives subscriptions therefor, a money entry of necessity must be made because an asset of "subscribers to capital stock" or "property" has been received and the complementary entry of either "Subscriptions to Capital Stock" or "Capital Stock Issued" must be placed on the books.

The entries for subscriptions received and installments due covering no par value stock are practically identical in form to those illustrated in Chapter X where the corporation issues stock of par value. It is pointed out, however, that when the final installment is paid and the capital stock (without par value) issued, the journal entry is changed. As no assigned value attaches to the stock at the time of incorporation and as no "formal" entry was made to record the amount of capital stock authorized, the following entry would have to be made to bring into the books the actual amount of the capital stock (no par value) issued:

July 18, 1928

Subscriptions to Capital Stock $120,000
  Capital Stock (No par value) $120,000

To record the issuance of 2,000 shares of the capital stock (no par value) of the company to the following subscribers sold at the price of $60 a share:

Certificate No. 1 B. Harris .....1000 shares
Certificate No. 2 A. Holmes ..... 500 shares
Certificate No. 3 C. Jourdon ..... 500 shares

Journal Entry No. 2.

On the assumption that the stock has been sold for cash (instead of on installments to avoid repetition of journal entries that are covered in Chapter X) the following journal entry would be made to effect the sale of 2,000 shares of no par value stock sold at a price of $60 a share:

July 18, 1928

Cash $120,000
  Capital Stock (no par value) $120,000

To record the sale of 2,000 shares of no par value stock at the price of $60 a share. Stock certificates issued as follows:

Certificate No. 1 B. Harris .....1,000 shares
Certificate No. 2 A. Holmes ..... 500 shares
Certificate No. 3 C. Jourdon ..... 500 shares

Stock Issued for Property or Labor

An illustration of one of the advantages claimed for the use of no par value stock is found where the stock is issued for property or labor. In this case the credit to capital stock is determined by the valuation placed on the property by the directors. Thus for instance a large block of shares may be issued to a person who furnished real estate or other property to the corporation without making it necessary to place any excessive value on the assets acquired.

Journal Entry No. 3.

Stock to the extent of 2,500 shares no par value has been issued for property (machinery) taken over at an appraised value of $150,000.

July 31, 1928

Machinery $150,000
  Capital Stock (no par value) $150,000

To record the issuance of 2,500 shares of the Capital Stock of the company to Harry Ray for Plant Machinery. Approved by Board of Directors and ratified by stockholders at meetings held, etc. Certificate No. 4 Harry Ray ....2,500 shares

In order to check, follow postings of journal entries that are numbered.

HARRIS-HOLMES FURNITURE MANUFACTURING COMPANY, INC.

Capital Stock—Preferred

		1928	
		Aug. 3—Cash No. 4	$50,000

Capital Stock—No Par Value

		1928	
		July 5—Corporation organized this day under laws of New York State with authorized stock of no par value represented by 5000 shares No. 1	
		July 18—Cash No. 2	$120,000
		" 31—Machinery No. 3	150,000
		Aug. 3—Cash No. 4	5,000

MACHINERY

1928		1928	
July 18—Capital Stock—No. 3	$150,000	July 31—Capital Stock—No Par Value No. 2	$120,000
		Aug. 3—Capital Stock—Preferred and Capital Stock No Par Value No. 4	$55,000

CASH

HARRIS-HOLMES FURNITURE MANUFACTURING COMPANY, INC.
Trial Balance at August 3, 1926

Cash	$175,000	Capital Stock—Preferred (At Par)	$ 50,000
Machinery	150,000	Capital Stock—Common (No Par)	275,000
	$325,000		$325,000

Fig. 31: General Ledger Exhibits—Capital Stock and Complementary Accounts

Sales of Unissued Stock

After the company has been in operation for some time the amounts derived from the sales of its unissued stock are credited to the Capital Stock account for the full amount received. At times exception has been taken to this method of procedure on the ground that the credit to the stock account should be at the price for which the original shares were sold and the balance credited to Surplus. The point to remember, however, is that this method allocates part of the selling price to an account from which it may be declared as dividends, whereas the sale price of the stock is all capital.

Stock Issued as a Bonus

Another interesting problem arises when the stock of no par value is issued and given as a bonus with the sales of preferred stock (or bonds) of the corporation. If the preferred stock (or bonds) is issued at par, particularly at the inception of a new company, no consideration, of course, has been received for the common stock (no par value). The method recommended in this case would be to make a mere memorandum entry in the general journal as follows:

August 1, 1928

There have been issued this day 500 shares of common stock of no par value of the Harris-Holmes Furniture Manufacturing Co., Inc., as a bonus in connection with the sale of 500 shares of preferred stock at a par value of $100 each.

This entry is carried to the credit side of the ledger account with Capital Stock—Common (no par value), the number of shares shown, without any money values stated.

If the preferred stock (or bonds) is sold together with the common no par stock at a figure above the par value of the preferred stock (or bonds), then the additional sum received may be used as the basis for a money entry to record the issuance of the no par stock.

Journal Entry No. 4.

The Harris-Holmes Furniture Manufacturing Co., Inc., has sold 500 shares of capital stock-preferred (of a par value of $100) for $110 a share and is to give with each share of preferred stock a bonus of one share of the capital stock of the company (of no par value).

August 3, 1928

Cash	$55,000	
Capital Stock-Preferred		$50,000
Capital Stock (no par value)		5,000

For bonds of 500 shares of capital stock (no par value) given with the sale of 500 shares of the capital stock preferred of the corporation sold at the price of $110 a share.

The foregoing methods are the theoretically correct ones with reference to recording no par stock, yet the accountant is often confronted with a number of other problems which he must carefully study and solve. An explanation of a few of these follows:

Low Nominal Value Stock

Some corporations set a low nominal value on shares without par, particularly in those states where the statutes require a minimum selling price for the stock. If the shares are then sold at a price in excess of that fixed, the excess amount is credited to either the Capital Surplus or General Surplus account. It will be immediately realized, of course, that it is not possible to ascertain the amount originally invested in the business without making an analysis of the Surplus accounts. All excess amounts realized over and above the fixed price of the no par value stock should be transferred to a capital surplus account which is not to be available for dividends.

The procedure of crediting the excess amount over the fixed price to Surplus is not a correct one. Again it must be mentioned that the law never intended when it set a minimum selling price for no par stock to fix a valuation for accounting purposes. The facts remain the same—the capital stock of a business, having shares without par value, represents the amount for which the shares are actually sold. Any amount received in excess of the fixed price is therefore capital and not surplus.

Another method sometimes used is to credit the proceeds of the sale of no par stock to a capital stock account and then later also enter in this account all profits, losses or other capital investment adjustments arising out of the stock transactions. This plan operates on the theory of crediting the original sale price to the Capital Stock account plus all increases or decreases over the "original" sale price on subsequent transactions. Any stock adjustments would also be carried into this account. This method

is a good one because it sets forth the "net capital" investment at any particular time. The only slight objection to it is that it fails to disclose readily the "original" investment and subsequent profits or losses.

"Market Value" Problem

There is still another method which contemplates keeping the value of the no par stock on the books at the market price of the stock. This is accomplished by crediting the proceeds of the sale of stock to a capital stock account. Then any difference between the market value and the amount received in payment for the stock is carried to a surplus account, and the Capital Stock account brought to "Market Value." At the time of closing the corporation's books for the fiscal period the Capital Stock account is adjusted in order to have it conform to the market value. This method, however, does not set forth clearly the distinction between what constitutes original investment and earned profits. In addition, this plan ignores the fact that market prices are constantly changing between the time the balance sheet is started and finally completed for distribution.

The Accountant's Responsibility

There is another phase of the accounting work, of course, that must be thoroughly understood. The accountant is not entirely responsible for the decision as to the manner in which no par stock is to be treated on the books. It is his duty, however, to explain to the management of the corporation the faulty points to be considered where certain questionable procedures are adopted which do not disclose the true state of affairs. The auditor signing the balance sheet where the facts as to no par value stock are not clearly set forth should explain by means of footnotes or otherwise the actual status so that anyone reading the financial statement will not be misled. Care and diligence must be exercised to make certain that the stock is shown at only its original sale price and not at the increased market price.

Accounting Procedure of Profit or Loss

The method of recording the earned net profit or net loss sustained for the fiscal period does not differ in the case of a corporation which has issued no par stock from that of a corporation having stock with a par value.

It must be noted that the profit or loss arising out of the regular operations of the company should be carried into an account separate from that showing the investment

DATE	EXPLANATION	FOLIO	No OF SHARES	NET VALUE PER SHARES	NET VALUE TOTAL AMOUNT	TOTAL AT FIXED MINIMUM PRICE OF * (20)	PREMIUM ETC	DISCOUNT ETC
1928 JUNE 1	To Stock Subscriptions		2000	$20	40,000 00	40,000 00	✓	✓
JULY 15	"		500	40	20,000 00	10,000 00	10,000 00	✓
SEPT 1	"		500	30	15,000 00	10,000 00	5,000 00	
DEC 31	"		1000	15	15,000 00	20,000 00	✓	5,000 00
		**	4000		90,000 00	** 80,000 00	15,000 00	5,000 00

Suggested general ledger account with rulings to show at any particular time the full history of the "no par stock" transactions.
NOTE: Rulings would be straight across ledger sheet and debits to stock account shown in red.
*Either "fixed minimum" or "assumed arbitrary value."
**Average sale price 22½ (4000 shares divided into $90,000.)
***Fixed minimum price 20 (4000 " " $80,000.)

Fig. 32: Suggested General Ledger Account for No Par Stock Transactions

in capital stock. In the case of a sole proprietorship or partnership the combination of capital invested and profits (or losses) is correct, because the account then shows the present worth of the owners. With a corporation, however, the situation is entirely different because there may be a large number of stockholders who hold several different classes of stock having special rights. Also in the case of limited liability, capital contributed should be kept distinct from earned profits.

Another important reason for segregating earned surplus from the original capital invested is seen in the case of a corporation which is organized with various classes of capital stock—common of no par value, common with par value and preferred stock. There may be rights attaching to the common stock with par value or preferred stock which would prevent the no par value common stock from claiming both the capital and entire earned profits to date.

Dividends

The next question that arises is the one pertaining to dividends on no par shares. Regardless of whether the dividends are payable in cash, property or scrip (a promissory note of the corporation), no special problem or accounting theory arises, because the journal entries to be made are the same as those in the case of a corporation having stock of a par value. When the dividend is declared the "Surplus" account is debited and the "Dividends Payable" account is credited. At the time of payment "Dividends Payable" is debited and "Cash" or other property account is credited.

In the event, however, that the dividend is payable in stock, the journal entry changes from those previously mentioned. Since no new capital has come into the business through the issuance of stock in the form of a dividend, no "money-value" journal entry should be made because the Capital Stock account is to show only the actual capital contributions acquired through sale for cash, property or other value. Only a memorandum entry, therefore, would be made in the journal and posted to the credit side of the capital stock general ledger account to serve merely as an "explanatory entry."

Another plan is sometimes used where there is a statutory fixed minimum value. This method proposes to place the dividend entry on the books for the total fixed minimum amount as calculated on the basis of the statutory value. In still other instances a journal entry is made for the stock

dividend the amount of which is calculated on a purely arbitrary valuation of the no par stock.

Certain accountants submit another method of recording stock dividends. The following problem illustrates this method:

A corporation has an issued capital stock of $270,000 represented by 4,500 shares of no par value stock, all of which is outstanding and has an earned surplus of $60,000. Each share has a unit value of $60. A stock dividend of 10% is now declared. An amount therefore equal to 10% of the paid-in capital (or $27,000) should be transferred from Surplus to Capital Stock—no par value. The Capital Stock account will now show $297,000 (for 4,950 shares) or still the value of $60 for each share of stock outstanding. The Surplus account now stands at $33,000. This method is further illustrated by means of the following journal entries:

Profit & Loss	$60,000	
Surplus (Earned)		$60,000
To transfer Profit to Earned Surplus Account.		
Surplus (Earned)	$27,000	
Dividends Payable		$27,000
To set up Dividend No. 1, declared by Board of Directors this first day of December, 1927, to be paid to the stockholders of record as at that date, the payment to be made in the form of common stock of no par value. The dividend is to represent 10% of the total outstanding stock (4,500 shares of an issued value of $270,000) and is to be made payable on March 1, 1928.		
Dividends Payable	$27,000	
Capital Stock (no par value)		$27,000
To record payment of dividend No. 1 on March 1, 1928 representing 450 shares of capital stock (no par value) to stockholders of record as at December 1, 1927, pursuant to order of Board of Directors.		

Stock dividends are usually declared when the surplus of the corporation is a large one, as it is often desirable to capitalize part of that surplus and convert it into capital stock. It is proper, of course, to place a value on such "stock dividend" shares based upon a valuation that corresponds somewhat to the average prices which have been paid for previous purchases of stock of the same class.

Changing from Par to No Par Basis

An interesting problem is presented to the accountant where a corporation changes from stock of par value to that of no par value. The accounting procedures are illustrated in the following hypothetical case:

A corporation has outstanding 2,000 shares of common stock of the par value of $100 each or a total issued capital stock of $200,000. The company also has a surplus of $50,000, of which amount $30,000 is earned surplus, and the balance of $20,000 represents a premium on the sale of certain shares of the capital stock. The question arises as to the entries that should be made to convert the capital stock of the corporation to a no par status. The company further wishes to increase its issue to 4,000 shares of no par value.

A first method would disregard making any entry at all (except a memorandum entry to show merely the increase in the number of shares from 2,000 to 4,000) on the assumption that only the character and number of shares of stock have changed. The original amount ($200,000) of stock issued would remain the same (except for memorandum change of number of shares) and the surplus account would still show $50,000.

A second method is to make a journal entry as follows:

Capital Stock	$200,000	
Surplus (Premium on sale of stock)	20,000	
Surplus (Earned)	30,000	
Capital Stock (no par value)		$250,000

To convert 2,000 shares of capital stock (par $100 each) of the company into 4,000 shares of capital stock of no par value. The 4,000 shares of stock to be capitalized on the basis of original amount paid in, plus premium of $20,000 and earned surplus of $30,000.

This method assumes that the entire book value of the stock (originally amounting to $200,000 plus premium of $20,000 and earned surplus of $30,000) is to be capitalized at $250,000 represented by 4,000 shares of participation certificates of no par value. There is a valid objection to this method because the earned surplus of $30,000 is cancelled thereby, making it unavailable for dividends. It is, however, a correct accounting procedure to capitalize the premium arising from the sale of stock as may be seen in the third method. The journal entry covering this last method follows:

Capital Stock	$200,000	
Surplus (Premium on sale of stock)	20,000	
Capital Stock (no par value)		$220,000

(Explanation along lines as previous journal entry)

This method appears to be the most logical one, as it assumes that the only change is in the character of the stock. It also takes into account that the full amount of capital originally "paid in" was $220,000. The actual consideration amounted to $220,000 (sales price and premium), therefore the corporation will merely exchange the old certificates of a par value of $100 each for the new certificates of no par value.

Methods of Valuation of No Par Stock

There are various methods of showing no par stock on the balance sheet. Corporate procedure should adopt that method which will express the accounting facts most clearly under given conditions.

There are five popular methods for the accounting of valuation of stock without par value. These methods are as follows:

A. Paid-in or equivalent value.
B. Stated value.
C. Net worth as of date of issue.
D. Net worth as of date of balance sheet.
E. Liquidation or equity value.

There is still another method which represents a combination incorporating features of some or all of the above mentioned methods. This method, however, is seldom used.

Paid in or Equivalent Value Method

This represents valuation of no par stock at values received in exchange for other stock. Some corporations carry the no par stock at net paid-in value. This means the amount of cash or value of property received by the corporation after the selling expenses, discounts or other costs have been deducted from the price of the securities.

Other corporations place the no par stock on the books at full sale price and charge the selling costs either to Surplus or to a deferred charge account to be written off over a period of years.

The paid-in method is advocated from the standpoint of conservative accounting practice. It enables the reader of the financial statement to differentiate between the amount contributed as stockholders' capital and the amounts repre-

sented in the different types of surplus accounts (capital surplus, paid-in surplus, etc.).

Stated Value Method

This represents a stated value placed upon the stock, either as an arbitrary amount set by the directors of the corporation or as a fixed minimum value specified by the state law. It usually happens that the stated values are less than the amounts paid in, represented by the value of the property received in return, or the par value of the stock formerly outstanding which the corporation exchanged for no par stock.

This method enables the corporation to set up a book surplus, eliminating any existing deficits and to write off any intangible or fixed assets, and even permits the payment of dividends, when sanctioned by statute, from the newly created surplus.

Under this method of valuation any one of the following adjustments is effected:

(a) a charge to surplus
(b) a credit to surplus
(c) a valuation of properties
(d) a revaluation of properties

Stated values most commonly used as a share value are $1, $2, $5, $10 and $20.

Net Worth as of Date of Issue Method

This method is used by certain corporations at the inception of the company or as of the date of financing. By this procedure, earned surplus and capital surplus, if any, are segregated from the no par stock valuation. The purpose of this is to show all surplus accounts separate from the no par stock valuation.

By setting up the accounts in this manner, it is possible to analyze the financial changes over an extended period of time, and present a clearer form of balance sheet when stated value or net worth is used as of the date of such balance sheet.

Net Worth as of Date of Balance Sheet Method

This method contemplates setting forth the stockholders' equity in one total amount without making any distinction between capital, earned surplus, or other special surplus. The objection to this method is that no differentiation is

made between surplus created as the result of an appraisal, earned surplus, paid-in capital or any other kind of surplus which arises out of various corporation reorganization and revaluation procedures. As the no par stock is shown as a combined total it is difficult to go back for any length of time to analyze the account as to the capital paid-in, increment of capital from revaluations and earned profits.

There is an advantage claimed for this method in that the value of the stock represents the book value which is due to the stockholders. This valuation comprises the combined total of paid-in capital plus all surplus accounts. This method therefore, constitutes a valuation based on the net worth of the company.

Liquidation or Equity Value Method

This method, although not used extensively, is nevertheless adopted by certain corporations. It applies only to preferred stocks which are shown at their liquidation value —the amount of equity in the capital and surplus as at a given date. The common stock, therefore, is represented by the residual equities (the amount available) which may be shown free and clear of the amount required for possible retirement of the preferred stock.

Summed up, this method operates on the assumption that if the company were to liquidate, and realize on its assets, etc., for the amounts stated on the balance sheet, the preferred stock would receive its full share, and the remaining capital (paid-in and surplus) would go to the holders of the common stock.

Various methods of showing the value of no par stock on balance sheets based on book valuations are shown in the following exemplifications:

1.

PRESENTATION FOR TWO CLASSES OF COMMON STOCK

Entry on Balance Sheet:

Class "A" Stock - 100,000 shares of No Par Value Class "B" Stock - 25,000 shares of No Par Value	$3,240,890.62

Note: There are two classes of common stock; these issues are represented by the total net worth of the company (i.e. paid-in capital plus surplus). No distinction is made as to earned and unearned items, paid-in capital, capital contributions or capital accretions.

2.

PRESENTATIONS FOR BOTH PREFERRED STOCK AND COMMON STOCK WITHOUT PAR VALUE

Entry on Balance Sheet:

The book value of assets for 500,000 preferred shares and 1,000,000 common shares both without par value (including earned surplus of $2,954,768.22) is $34,954,789.40.

Note: The earnings are stated separately.

3.

PRESENTATION WITH USE OF FOOTNOTES FOR PARTICULARS AS TO ISSUES

Entry on Balance Sheet:

No par capital stock* and surplus....$23,726,849.34

Footnote on Balance Sheet:

*Stock Outstanding:

Preferred	300,000 shares
Second Preferred	150,000 shares
Common	2,725,000 shares

Note: No attempt is made to segregate the amount of capital and surplus applying to each class of stock.

Fig. 33: Methods of Showing No Par Value Stock on Balance Sheets (Based on Book Valuations)

4.

PRESENTATION RELATING TO LIQUIDATION VALUES

Entry on Balance Sheet:

Class "A" and "B" Stocks - Liquidation Values and Common Stock - Capital and *Surplus....$8,764,932.25

Footnote on Balance Sheet:

*Includes capital surplus resulting from the revaluation of assets, etc., less $575,600.50 discount, premiums and expenses on bonds outstanding and those retired.

Note: No specific division of capital and surplus is shown as to Class "A" and Class "B" Common Stock.

5.

PRESENTATION UNDER CAPTION OF SURPLUS

Entry on Balance Sheet:

*Surplus $4,984,726.00

Footnote on Balance Sheet:

*Represented by 40,000 shares of Common Stock of No Par Value.

Note: No distinction is made between capital contributions and earnings.

6.

PRESENTATION UNDER CAPTION OF SURPLUS (DIVIDED BETWEEN CAPITAL AND EARNED)

Entry on Balance Sheet:

Surplus -	
*Earned	$ 984,628.30
*Capital.	2,000,000.00

Footnote on Balance Sheet:

*Represented by 30,000 shares of Common Stock without Par Value.

Note: Distinction is made between capital contributions and earned surplus.

Fig. 33: Continued

7.

PRESENTATION IN FORM OF SURPLUS AND RESERVES

Entry on Balance Sheet:

Reserves and Surplus *$1,350,000.98

Footnote on Balance Sheet:

*Balance of assets are represented by 75,000 shares of No Par Value, including earned surplus of $272,954.35

Note: Earned surplus is segregated from appropriated surplus (reserve) and capital surplus.

8.

PRESENTATION IN FORM OF PROFIT AND LOSS

Entry on Balance Sheet:

Profit and Loss . . . . . .*$ 494,826.84

Footnote on Balance Sheet:
*Applicable to 279,000 shares of No Par Value.

Note: This is very confusing; the capital is shown included in profit. This is apt to be misleading to readers of balance sheet.

9.

PRESENTATION SHOWING AGGREGATE VALUATION

Entry on Balance Sheet:

$7 - cumulative preferred stock, Class "A"	42,910	shares
6 - cumulative preferred stock, Class "B"	20,840	shares
Common stock	192,730	shares
Scrip certificates for common stock	5,780	shares
	*262,260	shares

Footnote on Balance Sheet:
*Total valuation $10,495,827.90

Note: Value is ignored as to each class of stock. An aggregate valuation is used to cover all stocks, as illustrated. No segregation of capital and earned surplus is made.

Fig. 33: Concluded

Transactions Affecting Treasury Stock

The next step in the matter of no par value stock, and also that relating to stock with par value, is the accounting procedure to record properly transactions affecting treasury stock.

In some instances "Treasury Stock" is also referred to as "Donated Stock." As the latter term implies, it represents stock which has been donated to the corporation after the stock had been originally issued. The stock, however, may also have been acquired by the corporation through purchase or otherwise.

The term "Treasury Stock" should not be confused with "Unissued Stock." The former covers stock that the corporation had previously sold and actually "issued" for value; the latter refers to the capital stock which is still to be issued. Treasury stock is usually acquired by a corporation for any of the following purposes:

A—For the purpose of securing working capital—

In certain corporations practically the entire capital stock may be issued for property, patent rights, or other consideration. This stock thereby becomes so-called "full-paid" and when donated to the corporation is termed "Treasury Stock." This stock may then be sold at less than par, or in cases of corporations having no par value stock, may be sold at a price less than that which was obtained in the original sale transaction.

There is always a legal test that will have to be considered concerning stock that had been issued for "certain values," and subsequently acquired by the corporation through donation or otherwise. If the consideration which the corporation has received will stand the test of possible legal scrutiny, then the stock may be sold for less than par, or less than its original issue price (in the case of no par value stock) without subjecting the purchaser of such "Treasury Stock" to further liability, on the ground that he has bought only "partly paid" stock.

B—For purposes of offering Treasury Stock (full-paid and non assessable) as a bonus to the purchasers of preferred stock or bonds of the corporation.

This is resorted to in order to make the offer an attractive one. Usually common stock, either of par value or no par value is given as a bonus.

C—For the reason that by offering a bonus of Treasury Stock, the sale of the preferred may be better promoted and more readily made.

The fact that "Treasury Stock" acquired by a corporation may be sold for practically any value decided upon by the directors, gives rise in turn to certain accounting phases which must be carefully considered. The accountant must study the sales and other transactions and make journal entries that will correctly reflect the true facts in the corporation's books.

CHAPTER XII

TREASURY STOCK

Differentiation Between Treasury Stock and Unissued Stock

Before taking up the accounting procedures connected with "Treasury Stock," let us consider the status of this stock from two standpoints—first that of the corporation, and second that of the purchaser.

It has been previously stated that the term "Treasury Stock" too often has been confused with "Unissued Stock." The former term is meant to include only stock originally issued and outstanding and subsequently purchased by the corporation or reacquired through donation or in some other manner. Treasury stock partakes to some extent of the character of an asset on the books of the corporation. This is not true of unissued stock. Such stock merely represents a "potential" issue—the creation of an obligation, or equity to a stockholder. It may be readily seen therefore, that stock which has never been issued cannot be considered as an asset.

Stock that has been issued for full and true value represents a certain interest in the corporation's assets. If any of the outstanding stock comes back to the corporation (as the result of a purchase or gift) it still remains "full-paid" and, therefore, can be considered a potential asset. Such stock is properly called "Treasury Stock" and may be sold at any price the corporation desires in order to procure funds; or it may be given away as a bonus with the issuance of preferred stock or bonds, without involving the purchaser or recipient in any liability to the corporation's creditors.

It should be mentioned that where treasury stock was originally issued for property that was grossly overvalued an innocent purchaser for value could hardly be held liable. If the purchase, however, is made with a knowledge that the property was unreasonably overvalued, there is no doubt but that payment for the "unpaid" portion could be enforced against the purchaser.

How Treasury Stock is Acquired By Corporation

Treasury stock usually comes into existence through agreement between the corporation and certain stockhold-

ers who receive stock for their rights in some mine, invention or enterprise, where all or a large portion of the authorized stock was originally issued in payment for property or rights. Later a part of the stock is returned to the corporation to be resold for the purpose of providing working capital.

It should be noted that the property or rights acquired (for which the stock of "original issue" was given) must be properly and fairly valued. The test of what represents "commensurate value" for the stock issued is frequently difficult to apply. Where an "overvaluation" of property or rights exists there is always the possibility that at some future date it might be held that the stock issued had not been fully paid for, and consequently parties to whom it was subsequently issued as treasury stock may be held liable for the unpaid balance as adjudged.

In order to relieve a corporation of any responsibility concerning this phase of treasury stock the following plan is sometimes adopted: The stock is assigned for the benefit of the company to trustees, who sell it at their discretion for certain prices and then turn the proceeds over to the corporation. Only when sales have been consummated are entries made upon the books of the corporation.

Cancellation of Old Stock and Issuance of Treasury Stock Certificates

The procedure relating to stock which becomes treasury stock by being reacquired through purchase or donation now follows:

The stock certificates when received by the corporation should bear proper indorsements, and the transfers should be entered in the transfer book and also in the stockholders' record ledger. These old certificates are cancelled and returned (pasted to the corresponding stub number) to the stock certificate book. The new certificates are then issued, usually in the name of the corporation. It is not necessary, of course, to issue any new certificates unless this method is desired. In some instances when the old stock is received, the certificates are merely assigned to the corporation, or to the treasurer, or perhaps to a trustee. This is sufficient evidence of legal ownership of the treasury stock. Later, when sales of the treasury stock are made, the new certificates are issued directly to the purchaser of the stock.

There is another matter of legal interest pertaining to this class of stock. At the time of its offer for sale the other stockholders have no vested rights as "first subscribers," because the stock is not of a new issue. Treasury

stock as long as it is held in the treasury can neither vote nor participate in dividends.

Valuation of Treasury Stock

There are several differences of opinion as to the "valuation" that shall be placed upon treasury stock when acquired by a corporation. There are some accountants who recommend that this stock be carried at cost; others prefer placing an estimated market value on the stock, and still another group favors placing it on the books at par value. The matter becomes somewhat more complicated when the question arises as to whether treasury stock should be carried on the balance sheet as an asset, or as a deduction from the outstanding capital stock.

If we consider treasury stock as an asset, it would seem that the cost or the market value would be the correct method of valuation. On the other hand if it is to be treated as a deduction from the capital stock on the balance sheet, then we must of necessity carry it at par so that the amount of capital stock outstanding will be shown at its par value. The theory as to the method of showing treasury stock on the balance sheet advocates this practice—if the stock is held for resale, it should be shown as an asset; if it is not to be resold, the amount at par should be deducted from the outstanding capital stock. Whether it is "to be" or "not to be" sold is the finely drawn distinction that can seldom be positively determined. If it must be shown on the balance sheet as an asset, however, under no circumstances should it be included with outside "securities owned." Treasury stock, when stated as an asset, should always be shown as a separate item on the balance sheet, and clearly identified as the corporation's own stock.

Treasury Stock Received as Donation

There are two methods which may be followed in recording the treasury stock of a corporation received in the form of a donation. In order to illustrate properly the accounting procedure, a hypothetical case is worked out with journal entries to cover both methods.

The Arizona Mining Company is organized with an authorized capital stock of $100,000, consisting of 1,000 shares at a par value of $100 each. All of this stock is issued in payment for the property. There are later turned back to the company 200 shares (at a par value of $20,000) which are to be resold for the purpose of providing working capital. It is also assumed that the stock has been sold at par. The transactions are now recorded as follows:

Method No. 1

August 1, 1929.

Treasury Stock $20,000
  Stock Donation $20,000

To record donation of 200 shares of stock of this company which has been donated for the purpose of providing working capital.

H. Rea .....75 shares
F. Smith .....75 shares
C. Whiteman .....50 shares

It should be mentioned at this point that some of the other complementary credit accounting terms are:

(A) Working Capital Donated
(B) Reserve for Treasury Stock
(C) Reserve for Donated Stock
(D) Reserve for Working Capital

The complementary credit term "Stock Donation" which is used is probably the most indicative of what the account actually represents.

At the time when the stock is sold the following entries should be made:

August 15, 1929.

Cash $20,000
  Treasury Stock $20,000

For 200 shares of treasury stock sold at its par value ($100).

August 15, 1929.

Stock Donation $20,000
  Surplus (Capital) $20,000

To close the stock donation account to surplus.

Does the amount of $20,000 represent a profit to the corporation? This is a question which must be decided by the directors of the company, depending on conditions and circumstances surrounding the acquisition and sale of the stock. Whether dividends can be declared from this amount is also a matter for the directors to decide. Since this surplus is in reality additional capital, its appropriation for dividends can hardly be considered justifiable. Certainly this practice would not be looked upon as indicating good administrative judgment.

It must be remembered that in many instances treasury stock will not realize par. Some corporations, therefore,

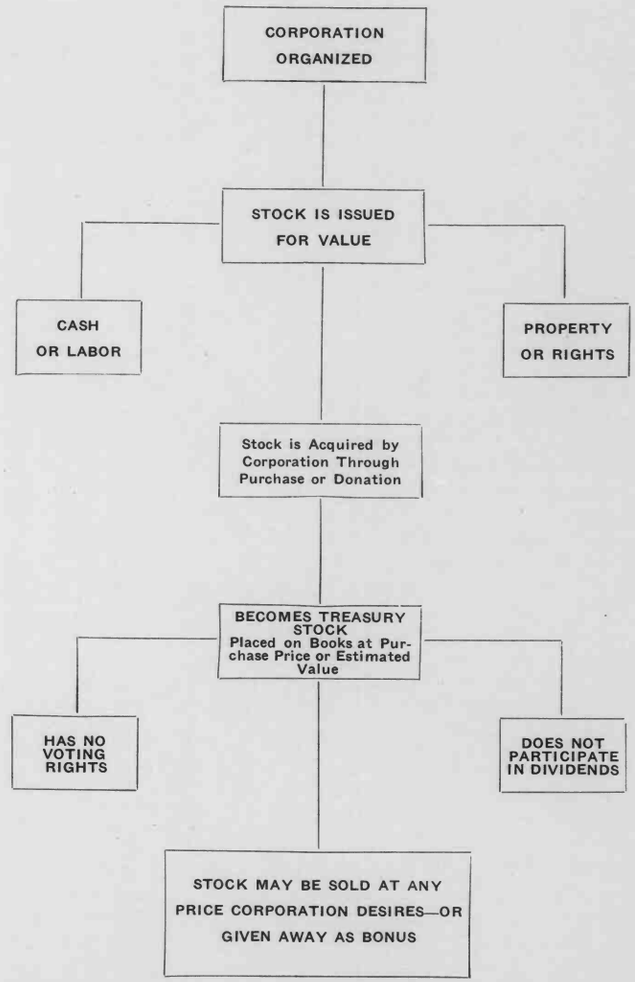

CORPORATION ORGANIZED
STOCK IS ISSUED FOR VALUE
CASH OR LABOR
PROPERTY OR RIGHTS
Stock is Acquired by Corporation Through Purchase or Donation
BECOMES TREASURY STOCK
Placed on Books at Purchase Price or Estimated Value
HAS NO VOTING RIGHTS
DOES NOT PARTICIPATE IN DIVIDENDS
STOCK MAY BE SOLD AT ANY PRICE CORPORATION DESIRES—OR GIVEN AWAY AS BONUS

Fig. 34: Chart Showing Creation and Status of Treasury Stock on Books of Corporation

enter the stock on the books at a price at which the corporation officials think it can be sold. The accounting procedure where the 200 shares were estimated to produce only $10,000 (instead of $20,000) would be as follows:

August 1, 1929.

Treasury Stock	$10,000	
Stock Donation		$10,000

To record 200 shares of the company's stock donated for the purpose of providing working capital. This stock has been placed on the books at an estimated value of $50 a share.

If the company were successful in selling this stock at its estimated value of $50 a share, the remaining two entries would be similar to those previously illustrated.

It is assumed, however, that the corporation sells the 200 shares of stock for $15,000 or at a price of $75 a share. This represents an excess selling price of $25 a share over the estimated amount ($50) which was placed on the books when the stock was acquired. The entry to cover the sale of the stock follows:

August 15, 1929.

Cash	$15,000	
Treasury Stock		$10,000
Stock Donation		5,000

To record the sale of 200 shares of treasury stock sold at $75 a share. The value of this stock as originally estimated was placed on the books at $50 a share.

The "Stock Donation" account which now stands at $15,000 would then be closed to "Surplus" by making a transfer journal entry.

The next illustration is where the stock is sold for only $40 a share. This is at a price of $10 a share less than the estimated or book value of the stock. The journal entry follows:

August 15, 1929.

Cash	$8,000	
Treasury Stock		$8,000

To record the sale of 200 shares of treasury stock at $40 a share. This stock was originally placed on the books at a value of $50 a share.

As will be noted there is a difference of $10 a share (loss) between the estimated value and the actual sale price of the stock which must be adjusted as follows:

August 15, 1929.

Stock Donation	$2,000	
Treasury Stock		$2,000

To record the difference in price of 200 shares of treasury stock donated to the company and originally taken up on the books at an estimated value of $50 a share.

There now remains in the stock donation account a credit balance of $8,000 which is transferred by journal entry to Surplus.

Method No. 2

Under the second method, the donated stock is considered as a reduction of the price of the property for which the stock was originally issued. The price of the stock which is returned is credited to the property account for which it was issued. This plan has the advantage of immediately reducing the cost price of assets which are subject to depletion or depreciation, thereby also reducing these charges periodically against future operations. This method differs from No. 1 in that it does not recognize any apparent or so-called fictitious profit before the company has actually started its regular business operations.

The facts as to name of company, capitalization, etc., are the same as used in Method No. 1. The first entry, therefore, under Method No. 2 would be to record the purchase of the mining property which is to be paid for in the capital stock of the company.

June 30, 1929.

Property	$100,000	
Capital Stock		$100,000

To record the issuance of the entire capital stock (1000 shares at a par value of $100 each) of the company for the purchase of property rights in accordance with approval of Board of Directors, ratified by stockholders, etc.

July 30, 1929

Treasury Stock	$10,000	
Property		$10,000

To record the return of 200 shares of the company's capital stock donated to the corporation and placed on the books at an estimated value of $50 a share (original issue value $100 a share).

If the stock is now sold at the estimated value the entry would be:

August 1, 1929

Cash	$10,000	
Treasury Stock		$10,000

For sale of 200 shares of treasury stock sold at $50 a share. This is as per price originally estimated and placed on books.

If the stock were sold at $75 a share (which is $25 more than the book value) instead of the estimated value of $50, the entry would be as follows:

August 1, 1929

Cash	$15,000	
Treasury Stock		$10,000
Property		5,000

For sale of 200 shares of treasury stock sold at $75 a share. This is at an excess of $25 a share over the estimated price originally placed on books.

If the stock were sold at $40 a share instead of $50, the following entry would be made:

Cash	$8,000	
Property	2,000	
Treasury Stock		$10,000

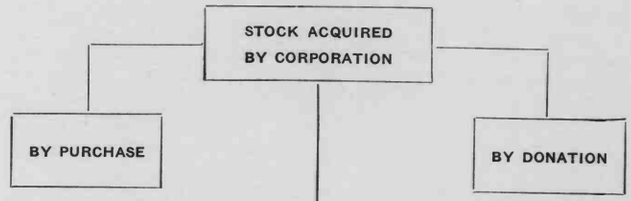
For sale of 200 shares of treasury stock at $40 a share. This is at a decrease of $10 a share from estimated price originally placed on books.

The distinct advantage of Method No. 2 is conservatism. The original book price of the property is first credited with the estimated value of the stock which has been turned back to the company. The difference in price on all subsequent sales of the treasury stock, made at less or more than the estimated price, is always adjusted as either a debit or credit to the property account.

The objection to this method lies in the "original value" of the property. If it was worth the value of stock issued for it, why should the price of the property which was originally placed on the books be reduced by the amount of the stock donated to the company? This is a matter, of course, that the directors should always be in a position to explain.

Treasury Stock Given as Bonus

The accounting procedures that relate to treasury stock issued as a bonus offer no difficult problems. The bonus



TREASURY STOCK

DEBIT—(Different Methods)		CREDIT—(Different Methods)	
STOCK WITH PAR VALUE	With purchase price acquired at by corporation.	FOR BOTH STOCK WITH PAR VALUE AND STOCK OF NO PAR VALUE	The same value as debited to this account will be the value credited.
	With estimated value placed on stock donated.		With either cost or sale price realized when the shares are disposed of. If the price received was more or less than the amount at which the stock was debited to this account, the difference (either profit or loss over original book debit) is credited or debited to the stock donation account.
	With market value of shares donated.		Stock given away as bonus would be credited to this account at value charged and debited to stock bonus account.
	With par value of stock donated.		Where no par value stock is debited to this account as merely a memorandum entry (without money value)—then when sold or given away as bonus—credit entry would be made for only the number of shares (no money value to be shown).
STOCK OF NO PAR VALUE	With number of shares at original sale price.		
	With purchase price acquired at by corporation.		
	With estimated value of stock donated.		
	With number of shares donated back to corporation. (No value to be entered—merely memorandum entry).		

STOCK DONATION

DEBIT	CREDIT
With any discount or loss when the stock is sold for less than the value at which it was credited to this account.	With the estimated value placed on stock donated, or with market value of shares donated, or with par value of stock donated. (Debit offset is treasury stock account).
Also debit this account with any expense connected with sale.	With excess when treasury stock is sold for more than value at which stock was credited to this account.
With transfer to surplus for stock given away as bonus.	No par stock donated and set up at some value would be handled similarly as above mentioned.
With the amount transferred to profit and loss, surplus or capital surplus.	

NOTE:—Sometimes accounts for premium and discount on treasury stock are set up on books. This practice is not necessary for industrial enterprises. Railroads, and other public utilities are obliged to carry these two accounts, transactions affecting which are subject to special legal requirements and regulations.

Fig. 34a: Composite Ledger Accounts Showing Different Accounting Methods Covering Treasury Stock Transactions

is usually given to promote the sale of preferred stock or bonds. The question as to the price that shall be placed upon the treasury stock is the only matter of any importance. Regardless, however, of what price is used, the "Bonus Account" would be charged at the same price at which the stock was debited to the "Treasury Stock Account."

September 20, 1929

Bonus	$5,000	
Treasury Stock		$5,000

For 50 shares of treasury stock at par given as a bonus in connection with the sale of 50 first mortgage 5% $1,000 gold bonds of the company. The treasury stock was originally placed on the books at a par value of $100 a share.

The Bonus account is treated as an organization expense and in accordance with certain accounting practice is written off over a period of years.

Corporation's Purchase and Resale of its Own Stock

Another problem of treasury stock arises when a corporation purchases its own stock. The accountant must see that all transactions affecting the corporation's purchase of its own stock are permissible under the statutes of a particular state. The accounting procedures should also be carefully studied to make certain that they conform strictly to all the legal requirements. A corporation does not usually have the right to buy its own stock without special permission from the State or the approval of its stockholders. The reasoning behind this is that a purchase of this kind is in effect a reduction of the corporation's capital stock, and that such reduction can be brought about only by making application to the State in the legally prescribed manner.

A corporation's purchase of its own stock is rarely made for purposes of investment. There is usually some special reason for the purchase. It is also to be remembered that stock of this kind must not be resold for less than its purchase price, otherwise the capital of the corporation would become impaired. This does not hold true, of course, when the stock has been issued as full paid and subsequently donated to the company.

Where the corporation is given authority in the charter or through statutory or special permission from the state in which the company was incorporated, it has the legal right to repurchase its stock. This act, as well as all others

that have an important bearing on the rights and interests of stockholders, should not only be passed and authorized by the board of directors, but should also be ratified and approved by the stockholders. This is in line with the policies of certain corporations which make it a practice to redeem their preferred or special stock usually at a fixed premium.

When stock of this character is purchased by the corporation it becomes treasury stock. As long as this stock is held by the corporation all its rights cease, and the stock is not entitled to vote or participate in dividend distributions. It can be readily appreciated, of course, that to pay dividends on this stock would be to receive the payment with one hand, and with the other to return it directly into the treasury.

An assumed case is used to illustrate the accounting treatment of the transactions relative to the repurchase of the corporation's stock.

The Houston Company, Inc. has repurchased 2000 shares of its full-paid capital stock (par value $50 a share) for $70,000. The stock is later resold to J. Sullivan at a price of $40 a share or a total of $80,000.

The journal entries in this transaction would be recorded as follows:

Entry No. 1

Treasury Stock (Repurchased)	$70,000	
Cash		$70,000

To record purchase of 2000 shares full-paid stock of this company (par value $50) at price of $35 a share.

Entry No. 2

Treasury Stock (Repurchased)	$30,000	
Reserve for Repurchase of Capital Stock		$30,000

To set up difference in price of 2000 shares of capital stock of this company (par value $100,000) and total price paid of $70,000.

Note that the difference of $30,000 between the price paid and the amount of the stock at par value should also be placed on the books. This accounting procedure should be followed because the stock now acquired had been originally issued at the face value of $100,000 and this is the amount that should be shown as treasury stock. In the Capital Stock account, the par value of $100,000 is included. In order, therefore, to express the accounts correctly on the

balance sheet the Treasury Stock item should also be stated at $100,000 and not for the price paid of only $70,000. In practice, if the treasury stock is held for resale it is shown as an asset, usually as a special item on the asset side of the balance sheet. If the stock were repurchased for cancellation, it still could be carried on the books as Treasury Stock, but when the balance sheet is prepared the amount of $100,000 should be deducted from the Capital Stock Issued and Outstanding. A better plan in the latter case would be to cancel the stock and reduce (debit) the Capital Stock Issued account.

In the problem, however, it has been further assumed that the Houston Company, Inc. has purchased the stock for resale. The other entries now follow:

Entry No. 3

Cash	$80,000	
Treasury Stock (Repurchased)		$70,000
Capital Surplus (or Profit and Loss)		$10,000

To record sale of 2000 shares of treasury stock repurchased at price of $40 a share, acquired at price of $35 a share.

The transaction should be carried out in a logical accounting manner. As only $70,000 represents the "repurchase" price of the stock which was originally entered on the books (see Entry No. 1), the difference or profit of $10,000 should be recognized immediately as a distinct and separate item. The profit should not be available for dividends and for this reason it would be preferable to credit the profit directly to Capital Surplus.

Entry No. 4

Reserve for Repurchase of Treasury Stock	$30,000	
Treasury Stock (Repurchased)		$30,000

To reverse entry (No. 2) set up at time of repurchase of treasury stock.

When the company's own stock is repurchased and subsequently sold at a loss, the accounting procedure would be the converse of that illustrated where there is a profit. All that need be done to record properly the facts is to charge (debit) the loss either to Capital Surplus direct, or to the account Profit and Loss.

Treasury Stock of No Par Value

The various accounting methods concerning treasury stock when the stock is of "no par value" are extremely interesting.

It will be seen at the outset that stock without par value which is received by a corporation through donation, relieves the corporation of the necessity of setting up an estimated value, and the necessity for resorting to questionable procedures, which is generally the case with stock having par value.

Since stock, in most states, cannot be sold legally for less than par, the way in which working capital is frequently obtained is to issue stock at par for an amount in excess of the value of the property or other asset received. A portion of the stock is then donated to the corporation. Where the no par value stock can be sold at any price this undesirable subterfuge is avoided.

The only entry required to record the donation of no par value shares is a memorandum entry which is made in the general journal and worded somewhat as follows:

August 1, 1929

"Harry Rea has this day donated to the Arizona Mining Company 150 shares of the capital stock of this company which was issued to him as full-paid. The stock is to be held in the treasury and to be issued at the discretion of the board of directors."

This memorandum entry is then posted to the explanation column on the debit side of the "Treasury Stock Account."

It will be noted that this method for stock of no par value which does not place any money value on the books is entirely correct. The receipt of this donated no par stock does not create a new asset; only a potential asset has been received which is later converted into a real asset when the stock is actually sold for value. The sale of this stock, further, cannot be properly considered as realizing a profit available for dividends. In addition, it may be mentioned that this type of stock does not reduce the capitalization of the company simply because a certain number of the outstanding shares have been returned.

As the shares of donated stock are sold, however, journal entries with money values are then made on the books. The asset received for the sale of the treasury stock is debited and the account for which the stock was originally issued is credited. The alternative plan, of course, is to credit a "Capital Surplus" or "Donated Surplus" account. The amount, technically, may be available for dividends, but as has been previously stated, the practice is not one of sound policy or good judgment.

Treasury Stock of No Par Value Given as Bonus

Where no par value treasury stock is given away as a bonus, no money value entry need be made. Only a memorandum entry in the general journal is required and this should then be posted to the explanation column on the credit side of the Treasury Stock account, mentioning the number of shares, etc.

There is, however, some sound reason in the method of making a money value entry, equal to the original sale price of the no par value stock at the time the stock is received by the corporation as a donation. In the case of no par value stock the figure shown as Capital Stock on the balance sheet should be the total amount paid in to date for the full number of shares outstanding. This figure cannot be correctly shown, however, unless the sale price of the Treasury Stock is deducted from the no par value Capital Stock account.

In the case of a corporation which places on its books a minimum value (for no par stock) as required by the statutes of a particular state, and afterwards receives some of its stock through donation, the accounting steps and the procedures are practically the same as in the case of stock having par value.

Treasury Stock of No Par Value Acquired Through Repurchase

We will now consider the case of a corporation having no par stock which acquires its own stock through purchase.

If the stock is purchased for immediate resale, then cost price is the proper basis for a charge to the account Treasury Stock and should a loss be sustained when the stock is sold at a later date the loss is charged to Capital Surplus. This is based on the fact that the difference, or loss between cost and sale price represents a part of surplus which has been distributed. If on the other hand a profit is realized it should in turn be credited to Capital Surplus. Where no par value stock is reacquired at a price equivalent to the sale price of the company's stock, the purchase price amount is debited to Treasury Stock, and when shown on the balance sheet this amount is deducted from the capital stock outstanding.

Should the stock be bought at a price above the original issue price, a debit would be made to Treasury Stock for the original sale value, and the difference debited to Capital Surplus. This procedure is followed on the ground that the difference actually represents a distribution of surplus

to the retiring stockholder. The journal entry is shown hereunder:

Treasury Stock (No Par—Repurchased)	$5,000	
Capital Surplus (or Surplus)	$1,000	
Cash		$6,000

For purchase of 100 shares of the company's stock at a price of $60 a share. Original issue price of this no par stock was at $50 a share.

It must be borne in mind that the purchase of no par stock at a price above the original issue price should occur only when the corporation has a surplus; otherwise it would be equivalent to the payment of dividends out of capital.

When a corporation purchases its no par stock for less than the price of the original issue, it is advisable in this case to place the stock on the books at the purchase cost price. It will be seen that no profit has been made nor any loss sustained. After the "cost price" is deducted from the capital stock on the balance sheet the amount that remains represents the total amount paid in for the shares issued and outstanding.

Sale of Treasury Stock of No Par Value

The sale of no par treasury stock offers no accounting problem when sales are made for the same price as that at which the stock was reacquired. The Cash account is debited for the amount received and the Treasury Stock account is credited. Should the sale be made at a price above purchase cost, then the accounting procedure is somewhat more involved. The Cash account is debited for the amount received, Treasury Stock is credited (at cost) and Capital Surplus is credited for the difference between cost and sale price. If the stock is sold at less than cost, Cash and Capital Surplus are debited, and Treasury Stock is credited for the cost (book value) of the stock.

In the case of no par value stock (treasury stock) it is important for the accountant to make certain that the original capital amount received is always kept intact.

Corporation's Purchase and Sale of Securities of Other Companies

The charters of modern corporations in accordance with statutory authorization generally grant the right to ac-

quire the securities of other companies. How far this right extends depends largely upon the exact wording of the charter and the statutes of the state. The term securities is intended to cover stocks, bonds, mortgages and other security investments.

The securities of other corporations purchased represent "Investments." They are additional assets acquired by the company. These investments should be carried under appropriate and distinctive captions on the balance sheet. The stocks of other companies acquired are not to be considered as treasury stock by the purchasing corporation. Securities purchased are usually placed on the books at cost price. Any increase in the investments of market over cost, in the event that the securities are revalued at market prices, should not be taken directly into Profit and Loss. The increase should be credited to an account entitled "Reserve for Appreciation in Value of Securities." It is an entirely different matter, of course, when the securities have been actually sold, for at that time the profit or loss must be recorded.

In order to illustrate the accounting procedure relating to the purchase of securities of other corporations it is assumed:

1—That Gross-Brennan, Inc. has purchased the following securities:

2000 shares of the 6% stock (Par Value $100), Harmon Manufacturing Company at $150 a share ..... $300,000.
50 First Mortgage 5% Bonds of the Indiana R. R. Company at par of 1 M each ..... $ 50,000.

2—The company later sells 1,000 shares of the Harmon Manufacturing Company at $200 a share ..... $200,000.

3—The remaining 1,000 shares are now valued at market ($200 a share) on the books, an increase in value of ..... $ 50,000.

4—A cash dividend on the remaining 1,000 shares has been received in the amount of ..... $ 6,000.

5—The bonds are held for interest earnings. The company has received a semi-annual payment of ..... $ 1,250.

The entries to record all these transactions now follow:

Entry No. 1

Securities of Other Companies $350,000
  Cash $350,000
To record purchase of the following securities:
2,000 shares of stock of the Harmon Manufacturing Company @ 150 = $300,000
50 First Mortgage 5% Bonds of Indiana R. R. Co. of 1 M each = $50,000

Note: In small companies the purchase of securities may be shown in the general ledger either in a separate account for each security or in one account which identifies fully the securities purchased. In the larger corporations a controlling account as indicated in the entry would be established and the detail accounts of the securities purchased would be kept in a subsidiary ledger.

Entry No. 2 (A, B and C)

(A) Cash $200,000
  Sale of Securities of Other Companies.. $200,000
To record sale of 1,000 shares of stock of Harmon Manufacturing Company sold at price of $200 a share.

(B) Sale of Securities of Other Companies (or Cost of Securities of other Companies) $150,000
  Securities of Other Companies $150,000
To transfer cost of securities, 1,000 shares of stock of Harmon Manufacturing Company at cost price of $150 a share and credit Investment account.

(C) Sale of Securities of Other Companies ..$50,000
  Profit and Loss $50,000
To transfer profit on sale of 1,000 shares of stock of Harmon Manufacturing Company.

Entry No. 3

Securities of Other Companies $50,000
  Reserve for Appreciation in Value of Securities $50,000
To record increase in market value of 1,000 shares of stock of Harmon Manufacturing Company.

Market Price ($200 a share)	$200,000
Cost Price ($150 a share)	150,000
Increase ($50 a share)	$ 50,000

Entry No. 4

Cash	$6,000	
Dividends (Stock of Harmon Manufacturing Company)		$6,000

To record dividend received on 1,000 shares of stock of the Harmon Manufacturing Company.

Entry No. 5

Cash	$1,250	
Interest on Bonds ($5,000 First Mortgage 5% Bonds Indiana R. R. Co.)		$1,250

To record interest received on $50,000 First Mortgage 5% Bonds of the Indiana R. R. Co.

So as to facilitate the preparation of Federal income tax returns it is desirable to create separate accounts for interest earned on bonds, and dividends received from stocks.

Stock Exchanged for Stock of Other Companies

Under this head corporation "A" may be acquired by corporation "B," the latter company giving its stock in exchange for the stock of "A." Stock interests, without each acquiring full control, may be exchanged by two or more companies.

The problem that follows illustrates the accounting procedures when stock is exchanged for stock of other companies:

The Peabody Manufacturing Company has been organized with an authorized capital stock of $500,000, comprising 5,000 shares of par value of $100 each. The company has sold to its incorporators 3,000 shares of stock at par, and payment is made immediately in cash. The remaining stock has been issued in exchange for stock in other companies as follows:

(A) 1,500 shares to be exchanged for 1,000 shares of the capital stock at $100 each of the Grant Process Company.

(B) 500 shares to be exchanged for 500 shares of the capital stock at $100 each of the Lyon Manufacturing Corporation.

Entry No. 1

Capital Stock Unissued	$500,000	
Capital Stock Authorized		$500,000

To record organization of the Peabody Manufacturing Company, etc.

Entry No. 2

Subscribers to Capital Stock	$300,000	
Subscriptions to Capital Stock		$300,000

To record subscriptions received to 3,000 shares of the capital stock.

(State names, number of shares to each, and terms of sale).

Entry No. 3

Cash	$300,000	
Subscribers to Capital Stock		$300,000

To record receipt of cash, etc.

Entry No. 4

Subscriptions to Capital Stock	$300,000	
Capital Stock Unissued		$300,000

To record the issuance of 3,000 shares of the capital stock of the company to the following subscribers:

(State names, certificate numbers, and shares).

Entry No. 5

Stock Investment in Other Companies	$150,000	
Capital Stock Unissued		$150,000

To record purchase of 1,000 shares of the capital stock of the Grant Process Company which was exchanged for 1,500 shares of the capital stock of this company.

Note: The entries to "Subscribers," and "Subscriptions" have not been repeated. It should be understood, however, that the subscriptions to the stock would first be executed by the Grant Process Company, then placed upon the books, and the capital stock entry actually made as indicated in Entry No. 4.

Although 1,500 shares of the Peabody Manufacturing Company have been given for only 1,000 shares of the Grant Process Company, the value is set up on the books for the amount of the stock issued and turned over to the latter

company. The $150,000 was in reality the purchase price paid for the stock of the Grant Process Company.

Entry No. 6

Stock Investments in Other Companies	$50,000	
Capital Stock Unissued		$50,000

To record the purchase of 500 shares of the capital stock of the Lyon Manufacturing Corporation which was exchanged for 500 shares of the capital stock of this company.

The account "Stock Investments in Other Companies" would appear either as a separate account in the general ledger for each class of stock, or combined in one account with full explanations. If there are a large number of interrelated exchange stock investments a controlling account should be established in the general ledger supported by the detail accounts in a subsidiary ledger.

CHAPTER XIII

STOCK FORFEITURES AND REDEMPTIONS

Nature and Effect of Forfeitures

Usually forfeitures of stock occur because of failure to pay installment calls or assessments levied pursuant to subscription agreements or by virtue of statutory authorization to restore impaired capital. The law does not favor forfeitures and therefore stock cannot be confiscated or sold for non-payment of calls or assessments unless a provision of the charter or of a statute expressly or impliedly so directs, or unless the purchaser or owner has consented thereto by contract. A failure to pay calls or assessments upon unpaid subscriptions may give the corporation the right to elect whether to sue under the subscription agreement or to bring about forfeiture, but one remedy is exclusive of the other.

Some statutes expressly require stock to be sold, there being no provision as to the forfeiture of the stock or its proceeds. Under the Ohio law, any proceeds remaining after paying the amount due on the shares and the costs of the sale must be paid to the subscriber or purchaser. Some state laws permit the sale of the stock upon default, but if no bidders appear and the corporation does not collect the amount due in six months, both the stock and the amount previously paid shall be forfeited to the corporation. In some instances, as in California, the statute empowers the corporation to purchase the stock at the sale, if there are no competitive bids, but prescribes that the costs, assessments and charges must be credited on the books as paid in full and that the stock must be transferred to the corporation on its books. Such provisions must be faithfully complied with. The New York Stock Corporation Law provides that if default shall be made in the payment of any installment, as required by resolution of the board, the board may, without public sale, declare the shares and all previous payments thereon forfeited after the expiration of sixty days from the service of notice on the defaulting stockholder. The Act further provides that such shares, if forfeited, may be re-issued or re-offered for subscription.

An agreement, in the by-laws, in a certificate of stock, or otherwise, to the effect that the stock is non-assessable,

will be given effect by the law if creditors' rights are not thereby jeopardized.

In view of the attitude of the law in respect to forfeitures, the statutory provisions of the particular state should be carefully studied in order that strict compliance may be made.

Nature of Preferred Stock Redemption

The power and terms of redemption of a preferred or other class of stock must be set forth in the stock clauses of the charter, or an amendment thereto. The statutes of most states contain covering provisions authorizing stock redemptions. Thus, the New Jersey Corporation Act states that: "Any preferred or special stock may be made subject to redemption at the time or times, and at such price, not less than par in the case of stock with par value, and not less than the value received therefor by the corporation in the case of stock without par value, as shall be expressed in the certificate of incorporation or an amendment thereof pursuant to which the same shall have been created." The covering statute of Indiana reads, "Such preferred shares may be redeemed or acquired by the corporation on such terms and in the manner and at such time as may be provided in the original or amended articles of incorporation."

There is a conflict of views respecting the necessity of a statutory authorization of the right to redeem, one position being that since the relation between the classes of stock is purely contractual, the only restriction on the powers of the corporation would be the question of the statutory right of the corporation in a particular jurisdiction to acquire its own stock. However, it has been held that the transaction does not constitute a purchase by the corporation of its own shares but operates as a retirement of the shares and an extinguishment of a claim. Generally the state corporation laws include stock redemption under transactions working a reduction of capital. Thus the recently adopted Corporation Law of Ohio provides, "A reduction of stated capital shall be authorized **** in case it is to be effected by redeeming shares subject to redemption under the articles by such resolution or other action, if any, as the articles may require or prescribe." The Act further provides "that a reduction may be effected by redeeming shares subject to redemption in the manner and at not to exceed the price, including premium, if any, prescribed by the articles; provided, however, that after such redemption there shall remain an excess of assets over all the debts and liabilities of the corporation plus the amount as reduced of stated capital. Unless the articles otherwise provide, shares subject to redemption may be purchased for redemption at not to exceed the redemption price, including premium, prescribed in the articles, but no such purchase shall be made which will favor any holder of such shares or any other such shares." It will be noted that the qualification is imposed by the section quoted that after such redemption there must remain an excess of assets over all the debts and liabilities of the corporation, plus the amount as reduced of stated capital. In other words, the rights of creditors must not be jeopardized by such a reduction of capital.

Redemption Procedure

The statutes of the various states, as discussed in the preceding paragraphs, usually direct that redemptions of preferred or special stocks shall, subject to express conditions defined by the statute, be redeemed in the manner described in the certificate of incorporation. In order to ascertain the redemption procedure in a given instance, therefore, reference must be made to the covering provision of the charter or the amendment thereof pursuant to which the preferred or special stock shall have been created. Where any statutory provision prescribes the manner of redemption, such provision must be fully complied with.

The provision pertaining to the redemption of preferred stock of Standard Brands, Inc., reads as follows: "At the option of the Board of Directors of the Corporation, the Corporation may redeem any series of Preferred Stock which has been made redeemable, or any part of any series, at any time, at the redemption price determined for such series; provided, however, that not less than 30 nor more than 60 days previous to the date fixed for redemption, a notice of the time and place thereof shall be given to the holders of record of the Preferred Stock so to be redeemed, by mail or publication, in such manner as may be prescribed by the By-Laws of the Corporation, or by resolution of the Board of Directors; and provided further that in every case of redemption of less than all of the outstanding shares of any one series of Preferred Stock, the shares of such series to be redeemed shall be chosen by lot in such manner as may be prescribed by resolution of the Board of Directors. At any time after notice of redemption has been given in the manner prescribed by the By-Laws of the Corporation, or by resolution of the Board of Directors, to the holders of stock so to be redeemed, the Corporation may deposit, or may cause its

nominee to deposit the aggregate redemption price with some bank or trust company in the Borough of Manhattan, the City of New York, named in such notice, payable on the date fixed for redemption as aforesaid, and in the amount aforesaid, to the respective orders of the holders of the shares so to be redeemed, on endorsement to the Corporation or its nominee, or otherwise, as may be required, and upon surrender of the certificates for such shares. Upon the deposit of such money as aforesaid, or, if no such deposit is made, upon said redemption date (unless the Corporation defaults in making payment of the redemption price as set forth in such notice) such holders shall cease to be stockholders with respect to said shares, and from and after the making of said deposit, or, if no such deposit is made, after the redemption date (the Corporation not having defaulted in making payment of the redemption price as set forth in such notice) the said holder shall have no interest in or claim against the Corporation, or its nominee, with respect to said shares, but shall be entitled only to receive said monies on the date fixed for redemption, as aforesaid, from said bank or trust company, or from the Corporation, without interest thereon, upon endorsement, if required, and surrender of the certificates as aforesaid.

"If such default shall be made by the nominee of the Corporation as aforesaid, such nominee shall upon such deposit become the owner of the shares with respect to which such deposit was made and certificates of stock may be issued to such nominee in evidence of such ownership.

"In case the holder of any such Preferred Stock shall not, within six years after such deposit, claim the amount deposited as above stated for the redemption thereof, the depositary shall, upon demand, pay over to the Corporation such amounts so deposited and the depositary shall thereupon be relieved from all responsibility to the holder thereof.

"Nothing herein contained shall limit any legal right of the Corporation to purchase any shares of the Preferred Stock."

Forfeitures Entered on Books

The accounting treatment in the matter of forfeitures of stock, in view of what has been previously stated, will depend upon the legal requirements of a particular state. On the assumption, however, that the rights of the subscriber shall cease when the installment calls are not paid in accordance with the terms of the stock subscription, the following problem which relates to different phases of stock forfeitures, is presented. The respective transactions are set up in journal entry form.

Part No. 1—The Schremer Manufacturing Company was incorporated under the laws of the State of New York with an authorized capital stock of $100,000 divided into 1,000 shares of a par value of $100 each. The incorporators subscribed to the stock as follows: H. Schremer 300 shares, R. Hampton 300 shares and B. Matthews 250 shares. Stock certificates numbered 1, 2 and 3 were issued to the incorporators who paid for the stock in cash.

Note: It is not the intention to discuss or cover the preliminary expenses of organization, etc., of the company.

Part No. 2—The remaining 150 shares of stock were sold on August 1, 1929 as follows: A. Harms 50 shares, C. Brunner 50 shares and L. Hayes 50 shares. The terms of these subscriptions were 50% cash upon signing the subscription agreement and the balance to be paid on October 1, 1929.

Part No. 3—(A) On October 1, 1929 the installment call notices are sent to the subscribers.

(B) A. Harms cancels his subscription and forfeits the amount paid in.

(C) C. Brunner, who is an employee of the company, feels that he cannot meet the remaining payment of his subscription. The directors agree to cancel his subscription and refund the amount paid in.

(D) L. Hayes, who is also an employee of the company is unable to pay the balance due on his subscription, and requests that the company issue the stock to him for the amount paid in, and that his subscription be cancelled. The directors agree to do this. Certificate No. 4 was therefore issued for 25 shares of capital stock.

The entries follow:

Part No. 1

July 1, 1929

Capital Stock Unissued	$100,000	
Capital Stock Authorized		$100,000
The Schremer Manufacturing Company was incorporated this day under the laws of the State of New York with an authorized capital of 1,000 shares of a par value of $100 each.		
Subscribers to Capital Stock	$85,000	
Subscriptions to Capital Stock		$85,000

To record subscription to the capital stock of the company by the following subscribers:

H. Schremer	300 shares
R. Hampton	300 shares
B. Matthews	250 shares

Cash $85,000
  Subscribers to Capital Stock $85,000
To record cash received from three incorporators in payment of stock.

Subscriptions to Capital Stock $85,000
  Capital Stock Issued $85,000
For issuance of stock to subscribers, etc. (State names, certificate numbers and shares).

Part No. 2

August 1, 1929

Subscribers to Capital Stock $15,000
  Subscriptions to Capital Stock $15,000
To record subscriptions to stock as follows:

A. Harms	50 shares
C. Brunner	50 shares
L. Hayes	50 shares

Terms of subscriptions 50% cash and balance payable October 1, 1929.

Cash $7,500
  Subscribers to Capital Stock $7,500
For cash received on account of stock subscriptions by A. Harms, C. Brunner and L. Hayes.

Part No. 3

October 1, 1929

(A) Installment Call $7,500
  Subscribers to Capital Stock $7,500
To enter on books installment due this day from A. Harms, C. Brunner and L. Hayes.

(B) Subscriptions to Capital Stock $5,000
  Installment Call (A. Harms) $2,500
  Profit and Loss (For Cash Paid in) $2,500
To cancel subscription of A. Harms for 50 shares of capital stock.

(C) Subscriptions to Capital Stock $5,000
  Installment Call (C. Brunner) $2,500
  Cash $2,500
To cancel subscription of C. Brunner for 50 shares of capital stock and refund amount of cash paid in. Approved at meeting of Board of Directors, etc.

(D) Subscriptions to Capital Stock $2,500
  Installment Call (L. Hayes) $2,500
To cancel (balance of) subscription of L. Hayes for 50 shares of capital stock, approved at meeting of Board of Directors, etc.

Subscriptions to Capital Stock $2,500
  Capital Stock Unissued $2,500
To record issuance of certificate No. 4 to L. Hayes for 25 shares of capital stock.

The stock issued to each stockholder, as indicated by the journal entries, is then posted to the individual stockholder's account.

Assessments Shown on Books

The matter of assessments or additional levies for capital contributions made on stockholders requires little discussion from the accounting standpoint. In states where assessments may be legally enforced against stockholders, the accounting procedure to record these transactions would be as follows:

Assessment on Capital Stock $50,000
  Reserve for Capital Stock Assessment $50,000
For assessment levied on stockholders of the Carson and Holmes Company, for additional capital contribution of $50 a share on 1,000 shares of the capital stock issued and outstanding. Par value $100 a share.

Note: The credit is not made immediately to Capital Contributed but to an intermediate reserve account.

Cash $50,000
  Assessment on Capital Stock $50,000
For cash received from stockholders, etc.

Reserve for Capital Stock Assessment $50,000
  Capital Contributed (or Capital Surplus) $50,000
To close reserve and credit amount received to Contributed account.

As the par value of the stock is $100 a share as indicated on the face of the certificate, the assessment of $50 a share should not be considered as an increase of the amount of capital stock issued. It is true, of course, that the assessment represents additional capital, but it is in the nature of contributed capital.

It must be conceded, however, that probably a number of the stockholders will never pay the assessment. Suppose that the amount of $5,000 of the total assessment is considered uncollectible; the entry to record this fact would be as follows:

Reserve for Capital Stock Assessment	$5,000	
Assessment on Capital Stock		$5,000

To transfer balance in reserve account to offset open balance in assessment account considered uncollectible.

Total amount of assessment	$50,000
Amount actually collected and previously transferred from Reserve account to Capital Contributed	$45,000
Amount of balance in Reserve account closed into Assessment on Capital Stock account by above shown journal entry	$5,000

The Assessment on Capital Stock account would appear in the general ledger as a controlling account supported by the stockholders' (individual) accounts in the subsidiary ledger. Where the number of stockholders is not large the individual accounts could be arranged in some suitable manner and carried in the general ledger.

Preferred Stock Redeemed

When preferred stock is redeemed, which is usually in accordance with the terms of original sale, the entry may be recorded as follows:

Capital Stock Issued	$50,000	
Surplus (or Profit and Loss)	5,000	
Cash (or Sinking Fund)		$55,000

To record redemption of 500 shares of the preferred stock of this company, par value $100 callable at $110 a share.

In some instances a sinking fund is set aside, in stated amounts annually, for the redemption of preferred stock.

When preferred stock is redeemed at the callable price, plus accrued dividends, entry should be made for charging that portion of the cumulative dividend included in the purchase price.

It will be noted in the journal entry that the Capital Stock Issued account has been debited. This results from the fact that preferred stock redeemed should not be considered in the same category as treasury stock or stock of the company which has been purchased in the open market. The redemption of preferred stock is equivalent to a reduction of capital as discussed in the preceding paragraphs. The redeemed certificates should, therefore, be cancelled on the books of the corporation. Pursuant to the charter authorization, however, the corporation may issue new shares of preferred stock in accordance with statutory requirements, the terms of its charter, and the formal action of the board of directors and the stockholders as prescribed therein.

CHAPTER XIV

BONDS

Corporate Borrowing

A corporation may avail itself of two methods of borrowing money; *i. e.*, on notes payable or through the issuance of bonds. The determination as to which of these methods will be used depends generally upon the size of the amount it is desired to borrow and the length of time the money is needed.

Small amounts can usually be contributed by a few persons and repayment made within a short period of time. These loans are, therefore, evidenced by the issuance of ordinary notes.

Where large sums are needed, as for instance, to make extensive permanent improvements in property or to acquire additional property, the sums would probably have to be secured from a great many individuals because of the large amounts involved. This latter type of borrowing is invariably handled through the issuance of bonds.

A bond, like a note, is a promise to pay a definite sum of money at a certain specified date. It is issued under seal and usually has certain property pledged as security for payment.

In order that the distinction between the corporate note and the corporate bond may be fully understood, a few comparisons are presented:

1. Both are promises to pay certain sums of money.
2. The bond is issued under seal—the note usually is not under seal.
3. The bond is usually secured, thus guaranteeing payment—the note is frequently not secured.
4. Both are ordinarily negotiable instruments.
5. Bond issues require a large number of bonds as a rule—a note is a single instrument.

Most states require that bonds shall be issued only for value and that they shall not be issued fictitiously. Some states require the assent of a majority of the stockholders to authorize the issuance of bonds.

Since several of the states have other special provisions relating to bonds on the statute books, it is advisable that

these legal requirements be carefully studied before the bond issuance is completed.

After the statutes have been consulted and all provisions fully complied with and the necessary resolutions made by the directors and stockholders, a trust company is usually selected to act as trustee for the bondholders. The property is usually transferred to the trustee through the medium of a deed of trust.

The Corporate Mortgage

The deed of trust or corporate mortgage is a corporate indenture intended to convey the title of the corporation in property described therein to a trustee, usually a trust company, as security for corporate obligations, issued in series, the units of which are in amounts specified. When the transaction consists of a pledge of stocks or bonds owned by the company, the conveyance is termed a "collateral trust" indenture. The proper use of the term "debentures" is confined to obligations issued under an indenture unsecured by mortgage or pledge of property, but which may contain covenants conferring certain protection or privileges on the debenture holders, such as the right to be beneficiaries under a future mortgage. A corporation has implied power to borrow money for its proper purposes in the absence of constitutional, statutory or charter restrictions. It has been held by the courts that the general power to borrow money carries with it, by implication, the authority to mortgage the corporate property to secure the debt. Usually statutory provisions prescribe that a majority, or a certain proportion, of the stockholders must give their consent at a duly convened meeting before the mortgage can be legally executed. All provisions of the state laws regulating execution of mortgages on corporate property must be strictly complied with.

Mortgage Classification

Mortgages are classified according to certain familiar characteristics.

A first mortgage is one constituting a first lien on the property mortgaged. The lien may embrace only a part of the property owned by the company. If it is agreed that the mortgage is to include all property which is subsequently acquired, this covenant is termed an "after acquired property clause." Such clauses are not confined, however, to first mortgages.

A second mortgage signifies that the lien is subordinate to an existing first mortgage. It is uncommon under the present financial practice to encounter the designations third or fourth mortgages, as bankers prefer other designations which gloss over the relatively inferior position of the lien in respect to seniority.

By general mortgage is meant a lien embracing all the property on which several liens already exist.

A first and refunding mortgage usually signifies that a first lien is given in respect to a part of the property, but that provision is made for the raising of liens on other parts of the property by refunding operations whereby the lien of the first and refunding mortgage is correspondingly extended.

A first and collateral mortgage is one denoting the creation of a first lien on a part of the property, supplemented by a pledge of stocks or bonds, usually of subsidiaries.

A leasehold mortgage is one involving the assignment of a lease of real estate and not the fee simple.

Purchase money mortgages are those given to secure the payment of the purchase price of specific property and usually attach only to the property sold.

An income mortgage provides for the payment of interest on the bonds out of earnings. A cumulative clause may be inserted, as in the case of preferred stocks.

To designate characteristics of mortgages, other than the nature of the lien, certain distinguishing terms are commonly applied to the bonds, such as sinking fund bonds; serial bonds (to describe those whose maturities occur periodically); convertible, carrying the right to convert into common stock or other securities; participating, calling for a division in the profits in addition to interest; guaranteed, where the obligations are guaranteed by another party; gold, where the payment is prescribed to be made in gold coin; and joint, where the obligation is the joint obligation of two or more corporations.

Contents of Indenture

Although the subject matter of the indenture is as important as that of the bond, since the indenture establishes the security underlying the bond, defines the terms and conditions under which the bonds are issued and prescribes and recites the contents of the bond, accounting treatises that reproduce the form of bond never present complete forms of mortgages. The short forms of indenture sometimes shown are scarcely adequate for general needs. It is true that much of the subject matter of the indenture

1. Recital of parties and date.
2. Definition of terms used in the body of the indenture.
3. Preamble reciting state of incorporation of the obligor corporation, the amount of its capital stock and of its issued and outstanding stock and bonds, description of the corporation's assets, authorization by stockholders and directors of the present bond issue, and the purpose of the issue.
4. Full text of the bond, the interest coupon if it is a coupon bond, and the trustee's form of certification which appears on each bond.
5. The granting clause which conveys the property described in detail to the trustee. If the indenture is drafted for a mortgage bond issue this clause is in the form of a mortgage on real estate; if for a collateral trust bond issue it is in the form of a pledge of collateral security.
6. The corporation covenants to pay principal and interest when due.
7. Provisions regarding the possession and maintenance of the property. In the case of a mortgage bond the mortgagor retains possession and control of the property unless a default occurs. The trustee is given possession of pledged securities, however, in the case of a collateral trust bond and remits interest and dividends collected on the pledged investments to the obligor corporation. In either case the obligor covenants to preserve the value of the property. The obligor frequently covenants to maintain the net tangible assets and the net current assets at stated percentages above the amount of bonds outstanding.
8. Statement of procedure to be followed by the trustee in the event of a default. Usually it is provided that a default shall not be effective until 30 days or more after a payment has become due.
9. Specification of percentages of bondholders, usually 20% to 25%, at whose request the trustee shall proceed to foreclose the mortgage or to take such steps as may be prescribed.
10. Procedure of trustee in case of receivership.
11. Responsibilities, liabilities and compensation of the trustee, and provision for his resignation or removal, or for the appointment of his successor.
12. Signatures and seals of obligor corporation and of the trustee.

Fig. 35: Chart of Usual Contents of Corporate Indenture

consists of phraseology of a technical legal nature which is retained because the expressions used have been repeatedly construed by the courts; but it is a mistake to assume that a knowledge of the covenants would be valuable only to lawyers. The financial and accounting officers of the corporation, the chief accountant and the public accountant serving the corporation should be cognizant of the usual provisions affecting the corporation's accounts, so that when necessity arises they will know where in the instrument to look for a particular bit of required information. The usual contents of a comprehensive form of mortgage bond indenture are enumerated in the chart shown in Fig. 35. This table of provisions arranged in the order of their appearance in the mortgage is a topical analysis of subject matter. The enumeration of points presented in Fig. 35a is of an entirely different character from the topical analysis in Fig. 35, being confined to those provisions only that affect the work of executives responsible for accounts.

In Sec. VII is presented an indenture executed in connection with a first mortgage sinking fund gold loan. A careful study of the provisions of this indenture contrasted with the enumerations in Fig. 35a, will develop comparative features of considerable interest and value.

Mortgage Definitions Affecting the Accounts

In addition to points enumerated in Fig. 35a, the accountant may find in the mortgage other provisions relating to the accounts. For example, usually if a specified ratio is required between net earnings and interest payable, an earnings statement will have to be furnished, certified to by a public accountant satisfactory to the corporation and the trustee, or the certification of the treasurer may be sufficient. The certification by a public accountant may also be required to the balance sheet required by the mortgage to be submitted in connection with agreements pertaining to the net quick assets.

In order not to work an unnecessary hardship on the mortgagor whose business may demand a turnover of certain units of the mortgaged property it is customary to arrange in the indenture for the sale by the corporation of such units with or without the special release of the trustee. In some instances necessary replacements and sale of the replaced units is authorized to be effected without the trustee's release provided that the proceeds of the sale are paid to the trustee. Under such circumstances periodical accountings of units sold are usually required to be made to the trustee.

1. Date of maturity of bond.
2. Provision regarding collection of interest and dividends on corporation's pledged securities.
3. Dates and details relating to deposits to be made to cover payment of interest on bonds.
4. Dates and details pertaining to deposits to be made to retire bonds.
5. Report and payment dates in respect to taxes on mortgaged property.
6. Dates of payment of premiums on insurance covering mortgaged property.
7. Custody and disposition of proceeds of insurance collected in respect to mortgaged property.
8. Conditions for release of a portion or portions of mortgaged property from the lien of the mortgage and the approximate date or dates if determinable.
9. Provisions relating to discharge of claims of mechanics and others against mortgaged property.
10. Conditions and definite or approximate dates, if determinable, for furnishing trustee with financial statements.
11. Right of access of trustee to corporation's books and records.
12. Prescribed percentage of net tangible assets to the amount of bonds outstanding.
13. Prescribed percentage of net current assets to the amount of bonds outstanding.
14. Conditions of certification of the bonds by trustee.
15. Provisions, if any, for exchange of bonds of new issue for bonds of former issue.
16. Conditions of delivery to the obligor corporation by the trustee of bonds to cover expenditures for betterments and improvements.
17. Expenditures regulated by mortgage requiring new accounting classifications.
18. Period of grace allowed, if any, after a default by obligor corporation.
19. Return of that portion of funds deposited with trustee represented by bonds which have not been presented for payment.
20. Definitions of signatures required for orders by the corporation on the trustee.
21. Amount and time of payment of compensation of trustee.

Fig. 35a: Points of Indenture of Particular Interest to Accounting and Financial Supervisors

Usually provision is made in the indenture for the payment by the trustee of interest at a rate usually allowed on similar deposits on funds which it has in its possession for purposes of the mortgage.

Necessity for Rearrangement of Account Classifications

In connection with clauses in the indenture as to types of expenditures a careful examination may develop that the definitions of expenditures outlined in the indenture do not accord with the existing account classifications. In that event new classifications should be set up in order that the information developed by the accounting records will be in the precise form necessary to satisfy the requirements of the indenture. The Interstate Commerce Commission has prescribed for railroads and public service corporations methods of accounting whereby the corporation's records automatically present the facts called for by the indenture.

Definition of Net Quick Assets

A protective provision for the bondholder is sometimes inserted in the mortgage to the effect that the corporation shall not pay any dividends on stock, or that no additional bonds shall be issued unless its net quick assets shall attain a level indicated in the mortgage. An example of a definition of the term "net quick assets" which is not uncommon in indentures is:

"The term 'net quick assets' whenever used herein with respect to the company means the excess of its unencumbered quick assets over its current liabilities.

"The term 'quick assets' whenever used herein means and includes only, (1) cash on hand or on deposit in banks or in other depositaries, (2) goods or collectible notes, trade acceptances, accounts and bills receivable contracted in the ordinary course of business if not in default and if due and payable within one year from the date as of which quick assets are being ascertained, (3) readily marketable securities taken in any case at not more than their market value, (4) goods manufactured and in process of manufacture, materials and supplies on hand and inventoried, the said goods, materials and supplies being taken at actual cost or at market value, whichever is the lower at the time of such inventory, (5) unexpired insurance premiums, discounts prepaid on bills payable (not including bond discounts) and prepaid taxes.

"The term 'current liabilities' whenever used herein includes accounts, drafts, bills and notes payable, royalties, rentals and sinking fund obligations accrued, earned and unmatured interest charges upon the bonds at any time outstanding hereunder, and reserves for taxes of every kind and nature, but excludes (1) the principal amount of the bonds issued and outstanding hereunder, (2) obligations not payable within one year of the date of the last preceding audit herein provided for, (3) drafts of bills of exchange drawn for the whole or any part of the amount payable on account of merchandise sold to others and which drafts or bills of exchange have been negotiated and other contingent obligations."

Authorization of Bonds

We now proceed to a discussion of certain accounting methods in the matter of recording different bond transactions.

As an illustration, it is assumed that under date of July 1, 1928, the Steel & Iron Corporation has authorized an issue of first mortgage bonds in the total amount of $2,000,000. The bonds have twenty years to run and bear interest at the rate of 4½% payable semi-annually.

At the outset, it might be said that as in the case of stock authorized, it is not necessary to place upon the books of the corporation any entry showing the authorized amount of the bonds. It seems advisable, however, because of the nature of the transaction that some formal record of the authorized amount be made. The following entry, therefore, under the "formal method" would appear in the General Journal:

July 1, 1928.

First Mortgage Bonds Unissued	$2,000,000	
First Mortgage Bonds Authorized		$2,000,000

To record the authorization of $2,000,000 First Mortgage, $1,000 each 4½% bonds by the Board of Directors and stockholders of the company.

Sales of Bonds

It will be noted that since these bonds bear interest, the interest begins to run from the date of their authorization. If, therefore, any sales were made on dates subsequent to the authorization date, the interest should be accrued and the entry made at the time of sale should set forth that fact.

If part of the bonds mentioned in the foregoing illus-

tration were sold on October 1, 1928 at par plus interest the proper entry would be as follows:

Cash $758,437.50
  First Mortgage Bonds Unissued $750,000.00
  Interest on First Mortgage Bonds 8,437.50
    To record the sale of $750,000 First Mortgage Bonds with interest at 4½% from July 1 to October 1, 1928.

It will be noted that this entry does not result in any earning of interest to the corporation, for at the time the interest is paid for the six months ended December 31, 1928, part of it will be offset by the three months' interest credit received by the corporation in the original sale price at October 1, 1928.

At December 31, 1928 an accrual of interest due on these bonds will be set up prior to the closing for the year. This entry appears as follows:

Interest on First Mortgage Bonds $16,875
  Interest accrued on First Mortgage Bonds $16,875
    To accrue six months' interest for period ended December 31, 1928 at 4½% on $750,000 Bonds sold on October 1, 1928.

The difference between the debit to the Interest account of $16,875 and the credit of $8,437.50 leaves a resulting debit balance of $8,437.50 or an interest charge equal to three months at 4½%. This is exactly what has happened since the purchaser paid for the first three months' interest which had accrued at the time he bought the bonds and the corporation has actually had to pay for only the last three months from October 1, 1928 to December 31, 1928.

The final entry concluding this series of transactions would be made under date of January 1, 1929 when the interest on the bonds is to be paid.

January 1, 1929.

Interest accrued on First Mortgage Bonds ..$16,875
  To Cash $16,875
    To record the payment of six months' interest at 4½% on $750,000 of First Mortgage Bonds issued and outstanding.

Bonds Subscribed and Paid for in Installments

Bonds, like stocks, may be sold on the subscription plan and the entries set up in the same order. On the assumption that an additional block of $500,000 of bonds of the authorized issue of the Steel & Iron Corporation are sold under this plan on January 2, 1929 the entries would appear as below:

January 2, 1929.

Subscribers to First Mortgage Bonds $500,000
  Subscriptions to First Mortgage Bonds $500,000
    To record subscriptions received for First Mortgage 4½% bonds payable one-fifth in cash and the balance in four monthly payments beginning February 1, 1929.

January 2, 1929.

Cash $100,000
  Subscribers to First Mortgage bonds $100,000
    To record the initial payment on sale of $500,000 4½% bonds made this day.

The same form of Cash Journal entry would be made on February 1, March 1, April 1, and May 1, 1929 when the other installments become due and payable.

The proper receipts should be given by the corporation acknowledging these payments as made. On May 1, 1929, when the last payment is made the bonds will then be issued and the following entry made:

May 1, 1929.

Subscriptions to First Mortgage Bonds $500,000
  First Mortgage Bonds Unissued $500,000
    To record the issuance of $500,000 of First Mortgage 4½% bonds to subscribers of January 2, 1929.

Sale of Bonds Through Underwriters

In some instances, the corporation will charge the subscribers interest on these deferred payments. If this is the case, the interest thus received should be credited to the account "Interest on First Mortgage Bonds," thus offsetting in part the amount of the interest paid by the corporation.

Where the bonds are underwritten by bankers who purchase the entire issue, paying for them under agreed terms, the procedure is to charge the bankers for the amount of the bonds delivered and credit them with the payments received by the corporation.

To carry this illustration further, let us assume that in the case of the Steel & Iron Corporation the entire bond authorization is taken over by the Bankers Underwriting Co. on July 1, 1928.

July 1, 1928.

The Bankers Underwriting Co. $2,000,000
  First Mortgage Bonds Unissued $2,000,000
    To record the sale to the Bankers Underwriting Co., of the entire issue of First Mortgage 4½% bonds authorized this day by the directors and stockholders of this company. Payment to be made one-fourth down and the balance in three installments due Sept. 1, Oct. 1, and Nov. 1, 1928.

July 1, 1928.

Cash $500,000
  The Bankers Underwriting Co. $500,000
    To record the payment of one-fourth of the sale of $2,000,000 4½% bonds made this day to The Bankers Underwriting Co.

Collateral Trust Bonds Entry

Cash Journal entries as above shown would be made under dates of September 1, October 1 and November 1, 1928 when the other underwriting installment payments are made by the bankers.

In the case where the bonds are secured by turning over to the trustee for the bondholders certain collateral owned by the corporation, the question often arises as to whether or not this transfer to the trustee should affect in any way the manner of showing the Investment account as it appears on the books of the corporation covering the ownership and the pledging of its collateral.

The ownership of the collateral pledged, of course, still remains vested in the corporation, but conservative accounting practice would seem to indicate that the proper procedure would be to have the books reflect what has actually happened to this collateral.

On the assumption that the Steel & Iron Corporation deposits with a trustee $2,500,000 worth of collateral to cover its $2,000,000 bond issue an entry should be made as follows:

Investments Pledged on F. M. 4½% Bonds $2,500,000
  Investments $2,500,000
    To record the transfer to the Bankers Underwriting Co. of $2,500,000 worth of securities pledged as collateral to cover present issue of $2,000,000 of 4½% First Mortgage bonds.

Thus at the time of preparation of the corporation's balance sheet the Investment account would show only those investments still owned (without lien) by the corporation which had not been pledged, whereas the "Investments Pledged Account" would clearly indicate those securities which had been transferred as collateral to the trustee.

Treasury Bonds of Corporation

While the subject of the balance sheet is being referred to it might be pointed out that at the close of the fiscal period the amount of unsold bonds in the "Unissued" account should not be listed in the "Asset" section, but, as in the case of "Unissued Stock" should be deducted from the amount of bonds authorized and the net difference representing "Bonds Issued" should appear as a liability.

The question is sometimes raised as to what entries if any should be made for interest on "Treasury Bonds," which term for the purpose of our illustration is interpreted to mean bonds that have been repurchased by or donated to the corporation. The term "Treasury Bonds" is commonly used, although incorrectly, to include all bonds still unissued. Since the bonds have not been cancelled, the manner of recording the interest does not differ in any way from the method used in handling interest on the other outstanding bonds. If we assume also for the purpose of illustration that $50,000 of bonds of the Steel & Iron Corporation have been donated to the company when the regular interest charges are set up on the books, an additional entry for the interest on the "Bonds Donated" would be made:

January 1, 1929.

Accrued Interest on Treasury Bonds $1,125
  Interest Received on Treasury Bonds $1,125
    For six months' interest at 4½% accrued on $50,000 of bonds of this company held in the Treasury.

Income Bond Entry on Books

It might be well at this time to call attention to the method of setting up interest on the so-called "Income

Bonds," the interest of which is dependent upon the corporation's ability to earn sufficient income to meet the interest payments.

The nature of these bonds as can readily be seen is similar to that of preferred stock and as such follows the procedure of placing dividends on the books. The interest is dependent upon the revenue of the obligor. If the indenture so provides, such portion of the specified amount of interest as is actually earned may be payable and unpaid interest may accumulate as in the case of preferred stock.

January 1, 1929.

Interest on Income Bonds $1,125
  Interest Payable on Income Bonds $1,125
    To set up interest at 4½% for six months on bonds of $50,000 ordered paid this day by the Board of Directors out of the profits of the corporation.

It may be noted, however, that whereas stock dividends can only be declared out of surplus, dividends on income bonds can be paid out of the Profit & Loss account. The "Dividends Declared on Income Bonds" account is finally closed into the Profit & Loss account.

Bonds Sold at Premium or Discount

There are times when bonds must of necessity be sold at a price either above or below the par value, depending upon market conditions. If sold below, the difference between the par value and the price received is designated as "Discount;" if sold above par, the difference is termed "Premium." Entries illustrating both of these conditions are given:

August 1, 1928.

Cash $45,000
Discount on Bonds 5,000
  First Mortgage Bonds Unissued $50,000
    To record the sale of 50 bonds with a par value of $1,000 each at 90.

August 1, 1928.

Cash $52,500
  First Mortgage Bonds Unissued $50,000
  Premium on Bonds 2,500
    To record the sale of 50 bonds with a par value of $1,000 each at 105.

Considerable discussion has been devoted to the question of how the discount and premium are to be disposed of. Many companies, whose annual profits are large enough to permit of this practice, write off the entire discount each year regardless of the amount, and at the same time carry the full premium earned into Profit & Loss or a special Surplus account during the year in which it was received.

A moment's consideration will indicate that this premium or discount is an actual addition to or deduction from the nominal interest that is paid on the bonds each year. It would, therefore, seem more equitable to dispose of the premium or discount over the life of the bond so each year will bear its proportional adjustment of the nominal interest paid on the bonds each period.

There is still another method which has met with much favor. As we have seen, if the bonds are sold at either a discount or a premium, the effective rate of interest is different from the nominal rate as specified on the bond. This difference between the effective rate and the nominal rate is charged or credited to income each period as the interest is paid.

On the assumption that the Iron & Steel Corporation has an issue of $500,000 First Mortgage Bonds which they sell for $486,229.67 and the bonds bear interest at the rate of 4% per annum payable semi-annually, they would yield 5% to the investor at the sale price. The following entries illustrate the method of recording these transactions:

July 1, 1928.

Cash $486,229.67
Discount on Bonds 13,770.33
  First Mortgage Bonds Unissued $500,000.00
    To record the sale of $500,000 First Mortgage Bonds of this company bearing interest at 4%.

January 1, 1929.

Interest on First Mortgage Bonds $10,000
  Cash $10,000
    Six months' interest at 4% on $500,000 of First Mortgage bonds.

January 1, 1929.

Interest on First Mortgage Bonds $2,155.74
  Discount on First Mortgage Bonds $2,155.74

To write off discount as follows:

2½% on investment of	$486,229.67	12,155.74
2% on par	$500,000.00	10,000.00
		$2,155.74

Other entries, as indicated above would also be made over the life of the bonds until all of the discount is charged off as additional interest on bonds. Let us further assume that the Iron & Steel Corporation sells an issue of $100,000 of 5% bonds for $101,388.63 yielding 4.5% to the investor. The entries would then be:

July 1, 1928

Cash	$101,388.63	
First Mortgage Bonds		$100,000.00
Premium on Bonds		1,388.63

To record the sale of $100,000 of First Mortgage Bonds bearing interest at 5%.

January 1, 1929.

Interest on Bonds	$2,500	
Cash		$2,500

Six months' interest at 5% on bond issue of $100,000.

January 1, 1929.

Premium on Bonds	$218.76	
Interest on Bonds		$218.76

To write off premium as follows:

2½% on $100,000	$2,500.00
2¼ on $101,388.63	2,281.24
	$ 218.76

Other entries, as indicated above, would be made for each period until the entire amount of the premium is credited to interest on bonds.

Prescribed Accounting for Special Types of Bond Issuance

There are several types of bonds issued by public utility companies, the accounting entries for which are prescribed by the requirements of the Interstate Commerce Commission and the corresponding authorities or commissions in the several states. It is not within the province of this volume, however, to discuss specialized and isolated aspects of bond accounting.

CHAPTER XV

INTEREST ON BONDS

Classification of Bonds

Bonds may be segregated into two classes, usually called debentures and mortgage bonds. A debenture bond is one that is unsecured. If it is not paid upon maturity, action may be brought in the courts, but there is no property behind it which guarantees payment. The claim of the debenture bond usually takes precedence over preferred stock, but is subordinate to any secured indebtedness of the corporation.

The term debenture, however, is sometimes used in connection with bonds having some security, as for instance, when there are deposited with a trustee under agreement certain of the corporate assets.

Mortgage bonds are those on which payment is secured by a mortgage or deed of trust on some property of the corporation. They may be classed as first mortgage, second mortgage, etc. Under these classifications are embraced various types of bonds drawn to comply with certain definite conditions and designated accordingly. Some of these different types of bonds follow:

1. Registered Bonds—issued to a particular party and transferable only on the books of the company.
2. Coupon Bonds—which have attached coupons for payment of interest at certain specific dates.
3. Convertible Bonds—which have the right of conversion into other securities of the same corporation.
4. Serial Bonds—payable in series until all have been redeemed.
5. Redeemable Bonds—which carry the provision that they may be redeemed or called before their dates of maturity.
6. Income Bonds—the interest payments of which are based on the net income of the company.
7. Collateral Trust Bonds—secured by collateral deposited with a trustee.
8. Profit Sharing Bonds—which in addition to the interest they earn are entitled to share in the profits of the company.

This classification gives a sufficient idea of the different types of bonds that may be issued in order to cover any desired nature of agreement.

It should be pointed out that bonds under a deed of trust must have the certification of the trustee before they are actually issued.

Appointment of Registrar and Fiscal Agent

If the bonds are to be listed on the New York or other Stock Exchange an independent registrar must be appointed pursuant to the rules of the exchange. (For regulations imposed by Listing Committee, see Section X). Usually though not always the trust company acting as trustee under the mortgage is appointed registrar.

This is a logical arrangement because newly issued bonds

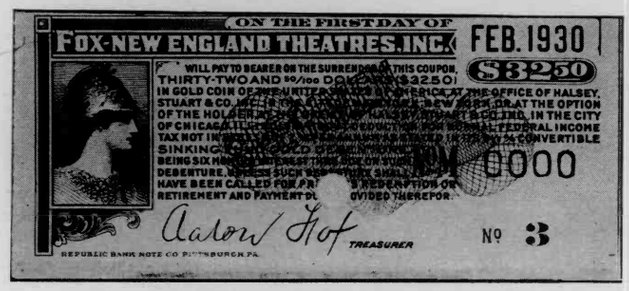


Fig. 35 b: Specimen Coupon

must be turned over to the trustee for certification and the cancelled bonds must be surrendered to the trustee in order that proper record may be made in accordance with the mortgage indenture. By combining the functions lost motion is eliminated. The arrangement for the registration to be conducted by a separate agency is a desirable one in all cases, as it establishes an external check and safeguard against overissuance and other irregularities.

If the corporation wishes to relieve itself of the coupon payment burden, it engages as fiscal agent a trust company or banking house and files with the Bureau of Internal Revenue a certificate reciting such appointment and the authorization of such agent to withhold deductions of Federal Income Taxes payable at the source and to pay such taxes to the Federal Government.

On all coupons will be printed a notation to the effect that the corporation will pay the amount called for by

the coupon at the office of the fiscal agent. A specimen coupon is shown in Fig. 35b.

Registration

The usual practice is to provide for registration as to principal. In some instances provision is made for full registration, particularly in the case of long term bonds.

In cases of registration as to principal only, the name of the owner must be inscribed on the bond and registration made on the records by the corporation or bond registrar.

Usually on the reverse side of the bond there appears a provision for exchangeability into other denominations and a form for registration of principal, as shown in Fig. 36. Space is provided on the form for recording subsequent transfers, and as each transfer occurs it must be duly entered on the bond register. Usually provision is made to restore registered bonds to bearer form upon the application of the holder.

When provision is made for full registration embracing both principal and interest, the current practice is to issue

The stamp tax imposed by act of Congress for and in respect of this bond has been paid by stamps affixed to the indenture under which this bond is issued, and duly cancelled.

The holder of this bond may, at his option, on surrender and cancellation and on payment of charges, as provided in the Indenture, receive in exchange, coupon bonds of the same issue and series for an amount aggregating $1,000 in denominations of $500 or $100 of numbers not contemporaneously outstanding.

Notice: No Writing on This Bond Except by an Officer or Agent of the Company.

Date of Registration	Name of Registered Owner	Signature of Registrar

Fig. 36: Back of Bond

fully registered bonds upon surrender of an equivalent amount of coupon bonds, whereupon interest payments are made directly to the holder. According to the listing requirements of the New York Stock Exchange (see Sec. X) the holders of fully registered bonds must be permitted to have their securities restored to the basis of coupon bonds on the surrender of a fully registered bond.

Registration Procedure

When coupon bonds are presented by the holder for registration, the name of the person who is to become the registered owner must be inscribed in the space provided on the bond and records of transfer must be made on the register kept either by the company, or if it has appointed a registrar, on the bond register maintained by the registrar. The procedure does not contemplate the issuance of a new bond as in the case of fully registered bonds but merely requires an appropriate inscription in the spaces provided on the reverse side of the bond and the certification by the company or the registrar.

Fully Registered Bonds

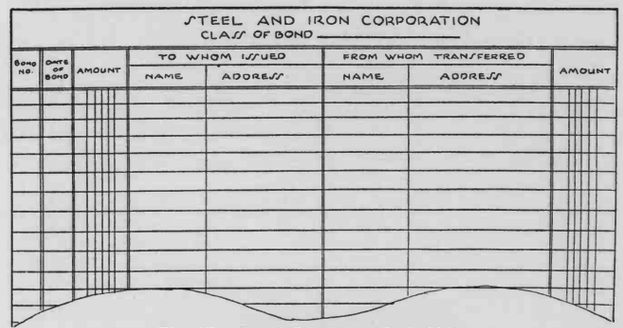
Although provision is usually made for registration of fully registered bonds, only a very small percentage of outstanding corporation securities are fully registered. By way of illustration, at the time of the offering by the International Match Company a few years ago provision was made for but one hundred bonds of One Thousand Dollars denomination to be fully registered. Not one of these bonds was used. The result was that in the recent offering by that company of a fifty million dollar bond issue no provision was made for fully registered bonds. There was only the usual provision for registration as to principal only, at the option of the holder of coupon bonds. Most of the outstanding bonds of that issue are still payable to bearer, very few having been registered. The experience of some large corporations, however, as in the case of the International Telephone and Telegraph Company, is that the percentage of holders desiring fully registered bonds, though small, remains about the same. As a rule the class of security buyers desiring fully registered bonds are investors in large amounts, such as insurance companies and endowed institutions, that wish to avoid the necessity of cutting coupons.

It should be noted that the possible procedures of registration comprise a registration of transfer from bearer to designated owner, a registration of transfer from one

designated owner to another and a registration of transfer from a designated owner to bearer.

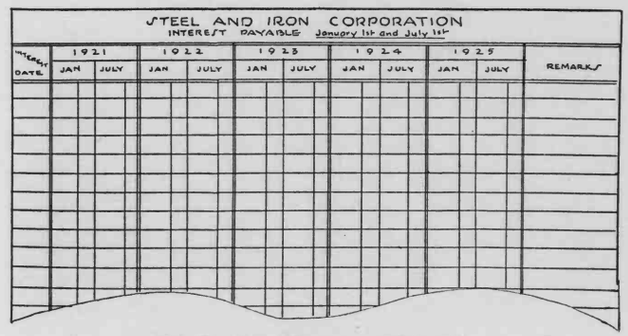
The record kept for recording transfers of bonds, *i. e.*, the bond register, is similar to the stock transfer register. Different forms are used for registration of bonds as to principal only and for registration of bonds as to principal and interest. In each case there appears at the top of the form a statement that "for value received we, the undersigned registered holders of mortgage bonds of..... Company, do hereby assign and transfer the amount set opposite our respective names to the person or persons designated below."

The left and right pages of a form of bond register are shown in Figs. 37 and 38.


STEEL AND IRON CORPORATION
CLASS OF BOND _____

BOND NO.	DATE OF BOND	AMOUNT	TO WHOM ISSUED NAME	TO WHOM ISSUED ADDRESS	FROM WHOM TRANSFERRED NAME	FROM WHOM TRANSFERRED ADDRESS	AMOUNT

Fig. 37: Bond Register—Left Side


STEEL AND IRON CORPORATION
INTEREST PAYABLE January 1st and July 1st

INTEREST DATE	1921 JAN	1921 JULY	1922 JAN	1922 JULY	1923 JAN	1923 JULY	1924 JAN	1924 JULY	1925 JAN	1925 JULY	REMARKS

Fig. 38: Bond Register—Right Side

In Fig. 39 is presented a form used for registration of principal only. After the recital of the transfer appear the words "bonds registered as to principal only." In the body of the form space is provided for entries under the following captions: "date, amount, transferred from, attorney, dr. posted, bond nos., registered to, address, amount, cr. posted," and "receipt no."

The form used for bonds registered as to both principal and interest has a different set of captions. These usually consist of date, coupon bonds cancelled with numbers and amount, registered certificate cancelled, with subcaptions of "from name of, attorney, no., amount, dr. posted," and captions for optional entries consisting of coupon bonds re-issued with numbers and amount, or registered certificates issued with subcaptions of "in name of, address, nos., amount, cr. posted" and "receipt no."

For Value Received, we the undersigned registered holders of _____ Mortgage Bonds of _____ Company, do hereby assign and transfer the amount set opposite our respective names to the person or persons designated below.

Bonds registered as to Principal.

Date	Amount	Transferred From	Atty	Dr. Pstg.	Bond Nos.	Registered to	Address	Amount	Cr. Pstg.	Receipt Number

Fig. 39: Form for Registration of Principal Only

If a separate registrar is appointed, as transfers from coupon to fully registered bonds are made, these are reported on a form provided for that purpose. If the registrar also acts as paying agent the registrar uses its checks in making payment, and if the list is large addressograph stencils are usually prepared. As in the case of stock transfers, the books are often closed for a short period before the date fixed for payment in order to facilitate the preparation from the bond ledger of an authentic list of bondholders.

A form of bond ledger is presented in Fig. 40.

Security _____ Registered as to _____

Name _____

Address _____

Date	Nos. Transfer.	Nos. Registered	Debit	Credit	Balance

Fig. 40: Bond Ledger

Coupon Payment Procedure—Fiscal Agent

Shortly before the interest is due, the corporation sends to its fiscal agent a check in an amount sufficient to meet all coupon requirements. In some cases, a flat charge per coupon collected is made by the fiscal agent. In other instances no charge is made provided the corporation deposits with the fiscal agent the sum adequate to cover interest payments three or four weeks prior to the date of payments. Under such circumstances a separate account is kept and periodic statements in respect thereto are rendered by the fiscal agent exactly as in the case of ordinary checking accounts.

Coupons are presented when due to the fiscal agent for payment. If the coupons call for interest on bonds issued by a domestic or resident corporation, if the bonds contain a tax covenant and are owned by a citizen or resident, individual or partnership, the form of ownership certificate prescribed by the United States Revenue Department shown

Form 1000
U. S. Internal Revenue
Revised January, 1929

OWNERSHIP CERTIFICATE

TO BE USED BY A CITIZEN OR RESIDENT INDIVIDUAL, FIDUCIARY, OR PARTNERSHIP IN CONNECTION WITH INTEREST ON BONDS OF A DOMESTIC OR RESIDENT CORPORATION CONTAINING A TAX-FREE COVENANT

DEBTOR CORPORATION

Name _____

Address _____

Name of Bond _____

Date interest was due on the above bond _____ Date paid _____

I certify that to the best of my knowledge and belief the information entered hereon is correct.

(Signature of owner, trustee, or agent)

(Address of trustee or agent)

(A fiduciary must disclose the name of the estate or trust for which he acts.)

OWNER OF BONDS (Name must be legible)

Name _____

Street _____

City _____ State _____

Classes of Bond Owners According to Net Income	Amount of Interest Received
1. Individual or fiduciary whose net income does not exceed the personal exemption and other credits	$ No tax paid by corpn.
2. Individual or fiduciary whose net income in excess of the personal exemption and other credits does not exceed $4,000	$ 1½% tax paid by corpn.
3. Individual or fiduciary whose net income in excess of the personal exemption and other credits exceeds $4,000, or a partnership	$ 2% tax paid by corpn.

NOTE.—If you discover at the close of the year that the interest was not entered on the proper line above, you should prepare on or before February 1 of the following year an amended certificate on this form and forward it to the corporation which issued the bonds.

Fig. 41: Ownership Certificate

in Fig. 41 must be executed. Similarly a form of ownership certificate (No. 1001 of U. S. Internal Revenue) must be executed when the coupons call for interest on bonds owned by a non-resident alien, a foreign partnership or corporation in a domestic or resident corporation.

Coupon Payment Records

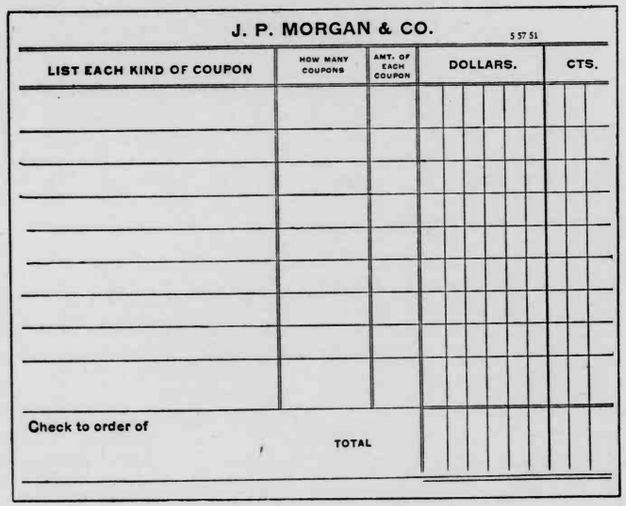
It would seem advantageous to describe briefly the procedure and records employed by coupon paying agents. A system which has been used as a model by a number of trust companies and banking houses is that which has been developed by J. P. Morgan & Company.

It must be kept in mind that comparatively few coupons are presented by the owners themselves. The great majority of coupon holders deposit their coupons for collection with their local bank which forwards the coupons to a correspondent bank in the city where the coupons are to be paid. After the coupons are collected and remittance made to the local bank, the proceeds are credited to the account of the owner.

Under the system maintained by J. P. Morgan & Company, when coupons are presented at the counter for collection, they are required to be enclosed in the envelope shown in Fig. 42, each lot of coupons of the same issue being kept together. The depositor must inscribe in the spaces provided for that purpose the information called for by the following captions printed on the envelope:

(1) List Each Kind of Coupon
(2) How Many Coupons
(3) Amount of Each Coupon
(4) Dollars and Cents

At the lower margin a space is provided for totals and for the name of the party to whom check is drawn.

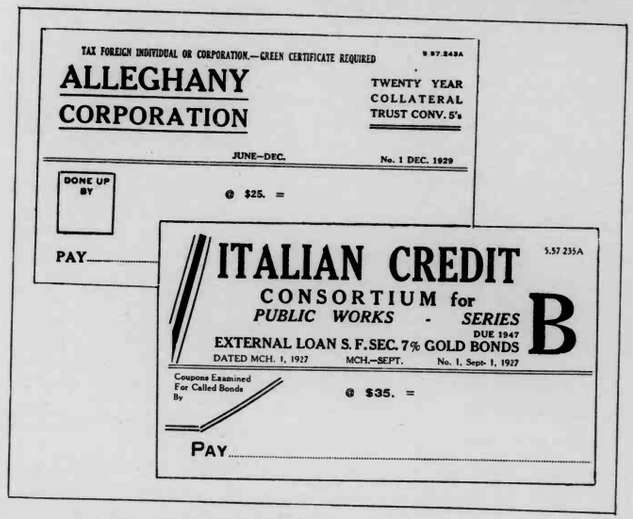

J. P. MORGAN & CO. 5 57 51

LIST EACH KIND OF COUPON	HOW MANY COUPONS	AMT. OF EACH COUPON	DOLLARS.	CTS.
Check to order of		TOTAL		

Fig. 42: Envelope for Coupons

Coupon Envelopes

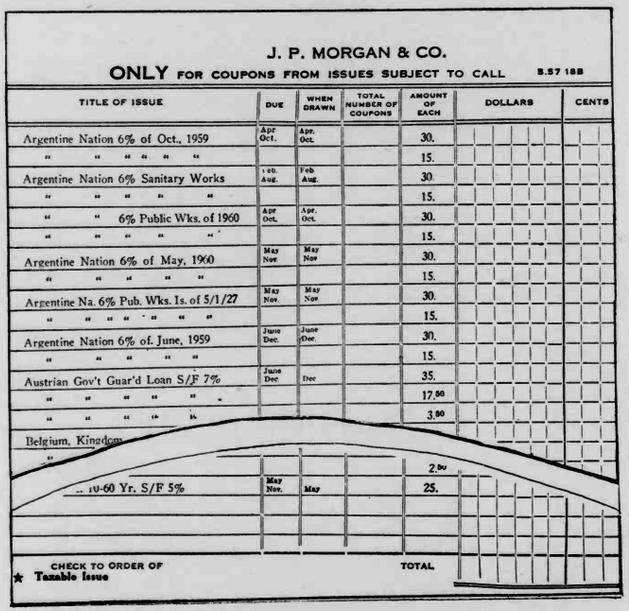
The contents of the envelope shown in Fig. 42 are then checked and assorted and coupons of particular issues are enclosed in their appropriate envelopes provided for that purpose as shown in Figures 43 and 44. It will be noted that space is provided on these envelopes for the number of coupons to be inserted before the amount of interest



Figs. 43 & 44: Coupon Envelopes for Individual Issues

per coupon and for the total after multiplication is made. At the bottom of each envelope is provided a space for the insertion of the name of the party to whom payment is to be made.

Care must be taken to avoid inadvertent payments on coupons in respect to which bonds have been called. An automatic check is established to prevent such payments by printing in red ink on envelopes pertaining to such issues the words "Coupons Examined for Called Bond By" as shown in Fig. 44. The various envelopes (Figs. 43 and 44) are then assorted, and the small envelopes, containing coupons of bonds in respect to which issues are subject to call, are enclosed in the large envelope 12 3/8 x 6 1/4 inches (shown in Fig. 45) after notation of


J. P. MORGAN & CO.

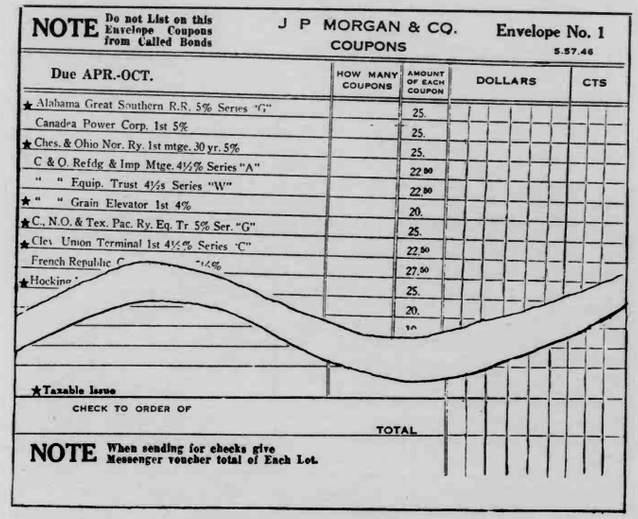
ONLY FOR COUPONS FROM ISSUES SUBJECT TO CALL 5.57 18S

TITLE OF ISSUE	DUE	WHEN DRAWN	TOTAL NUMBER OF COUPONS	AMOUNT OF EACH	DOLLARS	CENTS
Argentine Nation 6% of Oct., 1959	Apr Oct.	Apr. Oct.		30.		
" " " " " "				15.		
Argentine Nation 6% Sanitary Works	Feb Aug.	Feb Aug.		30.		
" " " " "				15.		
" " 6% Public Wks. of 1960	Apr Oct.	Apr. Oct.		30.		
" " " " "				15.		
Argentine Nation 6% of May, 1960	May Nov.	May Nov.		30.		
" " " " "				15.		
Argentine Na. 6% Pub. Wks. Is. of 5/1/27	May Nov.	May Nov.		30.		
" " " " " "				15.		
Argentine Nation 6% of. June, 1959	June Dec.	June Dec		30.		
" " " " "				15.		
Austrian Gov't Guar'd Loan S/F 7%	June Dec	Dec		35.		
" " " " " "				17.50		
" " " " " "				3.80		
Belgium, Kingdom						
"				2.50		
.. 10-60 Yr. S/F 5%	May Nov.	May		25.		
CHECK TO ORDER OF				TOTAL		
★ Taxable Issue						

Fig. 45: Envelope for Coupons for Bonds Subject to Call

numbers of coupons and total amounts in dollars and cents are entered under the respective captions, opposite the names of the issues to which they refer, which are printed

at the left-hand margin of the envelope. The small envelopes (as shown in Fig. 43) containing the coupons detached from bonds which are not subject to call are enclosed in the envelope 10 x 6 1/4 inches (shown in Fig. 46), after


NOTE Do not List on this Envelope Coupons from Called Bonds

J P MORGAN & CO. COUPONS

Envelope No. 1

5.57.46

Due APR.-OCT.	HOW MANY COUPONS	AMOUNT OF EACH COUPON	DOLLARS	CTS
★ Alabama Great Southern R.R. 5% Series "G"		25.		
Canadea Power Corp. 1st 5%		25.		
★ Ches. & Ohio Nor. Ry. 1st mtge. 30 yr. 5%		25.		
C & O. Refdg & Imp Mtge. 4½% Series "A"		22.50		
" " Equip. Trust 4½s Series "W"		22.50		
★ " " Grain Elevator 1st 4%		20.		
★ C., N.O. & Tex. Pac. Ry. Eq. Tr 5% Ser. "G"		25.		
★ Cle. Union Terminal 1st 4½% Series "C"		22.50		
French Republic C "½%		27.50		
★ Hocking "		25.		
		20.		
		10		
★ Taxable Issue				
CHECK TO ORDER OF		TOTAL		

NOTE When sending for checks give Messenger voucher total of Each Lot.

Fig. 46: Envelope for Coupons for Bonds Not Subject to Call

entries are made on the envelope of the number of coupons and their aggregate amount in dollars and cents opposite the names of issues printed at the left-hand margin of the envelope. Before the small envelopes containing the coupons are placed in the larger envelopes (shown in Figs. 45 and 46) the number of coupons and aggregate amount in dollars and cents are listed on the form shown in Fig. 47. It should be noted that on this form the titles of issues are divided into two classes, one being headed by the caption "Past Maturity." At the top of the form is provided a space for the name of the person to whom the check is to be drawn. In Fig. 48 is shown an envelope in which are to be inserted coupons which are to be returned because they relate to called bonds or wrong maturity dates or for other reasons. Space is provided on the envelope for inserting the name of the party to whom the coupons are to be returned and for listing the particular items and

J. P. MORGAN & COMPANY

MAR. AND SEPT No. 5074

DRAW CHEQUE

TO.....

ARGENTINE GOV. 5's
AUSTRALIA, COM'NWEALTH OF, 30 YR. 5's OF 1927
BELGIUM, KINGDOM OF, 25 YR. 6½'s
BOSTON & MAINE 1ST MTGE. 5's SERIES "AC"
CHES. & OHIO GEN. MTGE. 4½'s
" " WARM SPRINGS VY. BR. 1ST MTGE. 5's
CHIC. W. INDIANA 6's
CHIC. GREAT WESTERN 4's
" " " 6's
FIAT CAP. STOCK—DIV. C'P'NS.
FLORIDA EAST COAST RY. 5's SERIES "A"
" " " 4½'s SERIES
GENERAL MOTORS
CRU

PAST MATURITIES

ARGENTINE NATION
" "
AUSTRALIA, COMM OF, 30 YR 5's
AUSTRIAN GOV 7's
ATLANTIC COAST LINE
BELGIUM, KINGDOM OF
" "
CHES & OHIO
CUBA, REPUBLIC OF
" "
FIAT 7's
FRAMERI

Fig. 47: Form for Listing Coupons and Values

amounts and reasons for returning, together with the name of the member of the fiscal agent's staff who has made the examination. One end of the envelope is perforated and when signed by the person receiving the envelope and detached, constitutes a receipt for the returned coupons amounting to a sum designated.

RETURNS FOR .....

ITEMS	AMOUNT	REASONS FOR RETURNING
TOTAL		

FROM J. P. MORGAN & CO. EXAMINED BY

Returns Amounting to $ ..... Received by ..... For J. P. MORGAN & CO.

Fig. 48: Envelope for Returned Coupons

Check Register and Coupon Ledger

On Fig. 49 are provided spaces headed by appropriate captions to enter the name and amount or amounts deducted for returns and/or for tax, the amount of the check is filled out, and a space for the total opposite the caption, "Your Voucher Total." This form accompanies the check and the returned coupons enclosed in the envelope shown in Fig. 48.

DEDUCTIONS A/C TAXABLE ISSUES { 5% INDIVIDUALS 5% PARTNERSHIPS 12% CORPORATIONS } TAX REQUIRED ON TAX FREE ISSUES AS SPECIFIED BY ACT MAY, 1928 { 3% FOREIGN INDIVIDUALS 3% PARTNERSHIPS 10% CORPORATIONS } FROM J. P. MORGAN & CO.

COLL NO	NAME	AM'T DEDUCTED		DOLLARS	CTS
			OUR CHECK		
			RETURNS		
			TAX TOTAL		
			YOUR VOUCHER TOTAL		

MADE UP BY MEMO FOR .....

Fig. 49: Form to Accompany Check and Returned Coupons

No coupons are paid in cash. All payments must be made by check and if coupons are personally presented by a holder who wishes to have the cash thereon the check is made payable on the bank to the order of the holder and stamped "Pay to the order of bearer, per pro J. P.

Morgan & Co." The enumeration on Fig. 47 must equal in the aggregate of dollars and cents the totals on the envelopes shown in Figs. 45 and 46.

Under the system which prevails among many coupon paying agents, the coupon envelopes are sorted daily into issues and totaled and the sum thus obtained is compared with the total of a record called a "Check Register" which contains the number of the check, the payee's name and an enumeration of the various lots of coupons which are included in the payment. An entry is also made of the amounts of any payments withheld.

SPECIAL CHARGE TICKET
COUPON CASH BOOKS
J P MORGAN & CO

CHARGE _____ 19

COUPONS CHARGED THIS DAY AS PER COUPON CASH BOOK COUPON LEDGER ACCTS

BANKS AND BANKERS LEDGER ACCTS.
A–C
D–K

SPECIAL CREDIT TICKET
COUPON CASH BOOKS
J P MORGAN & CO.

CREDITS _____ 19

CHASE NATIONAL BANK #2

DEDUCTIONS ACCOUNT INCOME TAX
PROFIT & LOSS ACCOUNT COUPONS

Fig. 50: Special Charge and Credit Ticket

In Fig. 50 is shown a special charge and special credit ticket prepared in one slip divided by a perforated line. The charge ticket is printed in black and the credit ticket in red. The charge ticket bears the caption "Charge" and the legends "Coupons Charged This Day as Per Coupon Cash Book Coupon Ledger Accounts" and "Banks and Bankers Ledger Accounts A-C and D-K." The credit ticket bears the caption "Credit" and the instructions "Deductions Account Income Tax" and "Profit and Loss Account Coupons." By this means the information on these charge and credit tickets is posted to the appropriate accounts in the ledger.

A form of coupon ledger is shown in Fig. 51.

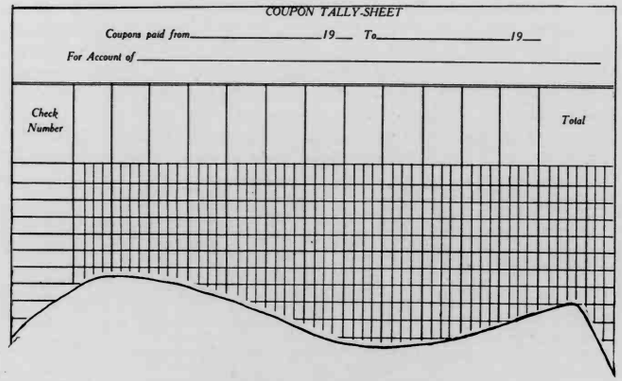
MAJOR TRUST COMPANY
Coupon Account.

	DATE	DEBITS	CREDITS	BALANCE	DATE	DEBITS	CREDITS	BALANCE

Fig. 51: Coupon Ledger

Corporation's Coupon Paying Department

If the corporation decides to handle its own coupon payment work, it must establish a system for recording payments and if its bonds are listed, for inter-communication with its registrar. A well-known public service corporation employs a simple system which has proven efficient and dependable. An envelope is prepared for the use of banks or other agents presenting coupons, on which are printed instructions for attaching coupons to their respective ownership certificates, and spaces provided for listing coupons of each denomination, and for the name of the party to whom check is to be issued. Coupon payments are all made by checks which are drawn against a special fund deposited with the bank for that purpose. A form of coupon tally-sheet, shown in Fig. 52, is used for listing all of the coupons presented by a bank or other representative or by the holder in person. The sheet provides a space for dates of coupon payments and for the name of the bank or other representative attending to the collection. The first column is for check numbers, and twelve additional columns are provided with blank spaces in which are to be written captions consisting of series descriptions and coupon amounts. Opposite the check number which is written in the left-hand column are entered under the appropriate captions the numbers of the coupons of the respective series and coupon unit amounts. In the column


COUPON TALLY-SHEET

Coupons paid from _____ 19__ To _____ 19__

For Account of _____

Check Number | Total

Fig. 52: Coupon Tally Sheet

at the right-hand margin, under the caption "Total" are written the amounts of the checks. At the bottom of each

_____

_____

_____

IN ACCOUNT WITH

We have this day forwarded to you a package of properly cancelled coupons as stated below, accompanied by certificates of ownership, the said coupons having been paid out of funds deposited for that purpose.

Description of Coupons	No. of Coupons	@	Debits	Date	Credit Balance

Received from _____, the coupons described in its statement aggregating $_____ accompanied by certificates of ownership, said coupons having been paid out of funds deposited for that purpose. The balance $_____ remaining to the credit of this coupon account as per statement rendered _____ is correct.

_____

By _____

PLEASE DATE, SIGN AND RETURN RECEIPT.

Fig. 53: Summary Sheet

of the twelve columns is a space for the total number of coupons of that certain series and coupon unit amount.

In Fig. 53 is shown the summary sheet on which are recapitulated the various totals appearing on the various coupon tally sheets. The bank in which the special fund is kept verifies the correctness of the items on the summary sheet (Fig. 53). The cancelled coupons are then delivered to the trustee and cremated.

From the recapitulation sheet (Fig. 53) the total number of coupons paid is easily ascertainable and from the cremation certificate the individual numbers paid, cancelled and cremated are ascertainable. Hence the number of outstanding coupons and if needed the individual number may be ascertained. From the periodic statement of the bank may be obtained the amount deposited in the special fund for coupon payments and the amount actually disbursed and the balance remaining to meet outstanding coupons.

Monthly and annually the company must file with the Bureau of Internal Revenue a return of income tax to be paid at the source.

Accounting Entries for Interest on Bonds

In order to illustrate the accounting phases of the payment of interest on bonds the following problem is submitted:

The Shafer Chemical Company has issued and outstanding $2,000,000 First Mortgage 5%, 10 year 1 M Bonds, interest payable semi-annually, January 1 and July 1. These bonds were sold at par on December 31, 1929.

The first interest period to be recorded is July 1, 1930. Usually a few days beforehand the Company would deposit with the fiscal agent or trustee the amount of $50,000 for payment of the coupons. The coupons are then presented by the holders and paid by the agent.

The entry to cover the amount turned over to the trustee might be entered in the cash journal — the account Interest on Bonds would be debited and the Cash account correspondingly credited. There is however an objection to this method, because in the event that all the coupons have not been paid by the trustee there would be a balance still due the Company represented by the amount of the unredeemed coupons. An example of this is readily seen from the tabulation which follows:

Amount deposited with trustee for interest payment due July 1, 1930	$50,000
Amount of coupons presented and paid	42,000
Balance of coupons (not yet paid)	$ 8,000

It will be noted that the Company still has a credit balance of $8,000 according to the trustee's records.

This balance, of course, does not appear on the Company's books, because the full amount of the interest payment of $50,000 made to the trustee, was originally credited to the cash account. A better plan, therefore, would be to open a special deposit account for the payment of the interest. Under this arrangement the entries are as follows, the first to appear in the general journal and the second in the cash book:

July 1, 1930.

Interest on First Mortgage 5% Bonds	$50,000	
Coupons Payable (or Bond Interest Payable)		$50,000
To set up amount of semi-annual interest on First Mortgage 5% bonds, due and payable this day.		
Harlem Trust Company (or Special Deposit)	$50,000	
Cash		$50,000
For amount of check issued to Harlem Trust Company deposited in special account for payment of interest on First Mortgage 5% bonds.		

When the trustee reports the amount of coupons that have been presented and paid an entry will be made as follows:

Coupons Payable (or Interest on Bonds Payable)	$50,000	
Harlem Trust Company (or Special Deposit)		$50,000
For amount of coupons presented and paid as reported by trustee.		

It seldom happens, however, that all the coupons are turned in to the trustee for payment. In that case entries would be made on the Company's books for only the amount of the coupons as reported and paid. Under this method of recording the transaction the unpaid balance of the coupons will appear in the "Special Deposit" account. The balance in this account represents the unredeemed coupons which remain as an outstanding obligation of the Company until finally paid.

Monthly Accrual of Bond Interest

The usual practice is to set up the bond interest monthly instead of at the due date payable. This method is carried out by corporations that prepare their financial statements at the end of each month. It tends to spread the interest charges uniformly over the year's operations.

The "accrual" of interest should not be confused with interest "due and payable." The coupon is in effect a note payable and as such is payable only on a specific or definite date of payment—the accrual refers only to the accumulated interest for a certain period, which, however, is not payable until the actual due date of payment.

In the case of The Shafer Chemical Company the total semi-annual interest amounts to $50,000 or $8,333.33 monthly. The entry for the interest accrual each month would be:

Interest on First Mortgage 5% Bonds	$8,333.33	
Coupons Accrued (or Interest Accrued on Bonds)		$8,333.33
To set up monthly interest accrued on $2,000,000 First Mortgage 5% bonds.		

All accruals of interest on obligations, regardless of their nature, where monthly financial statements are prepared, should be made each month, with appropriate accounts to designate the source of "debit" and its "credit accrual."

At the end of the sixth month when the interest is to be paid, either by the Company direct or the trustee, a journal entry will be made as follows:

July 1, 1930.

Harlem Trust Company (or Special Deposit)	$50,000	
Cash		$50,000
(Explanation same as entry made previously).		
Coupons Accrued (or Interest Accrued on Bonds)	$50,000	
Harlem Trust Company (or Special Deposit)		$50,000
To record payment of semi-annual interest, etc.		

The charge to the "Interest on Bonds" account is usually carried in the general ledger until the end of the fiscal year, at which time the account is closed to profit and loss.

Where there are different bond issues outstanding separate accounts for the interest charges as well as

for the bonds should be opened on the books. The journal entry should carefully recite all the interest facts as to rate, date of payment, monthly accrual, etc., with regard to each specific bond issuance.

When bonds are sold between the last day of the interest payment and the next interest date, the sale price must necessarily include that portion of the interest which has already accrued. The journal entry that follows covers a transaction of this character. It is assumed in this case that these are issued bonds of the Company which have been subsequently sold.

September 30, 1930.

Cash	$50,625	
First Mortgage 5% Bonds		$50,000
Interest Earned on Bonds		625
To record sale of 50 First Mortgage 5% bonds of the Shafer Chemical Company, which the company had purchased on day of issuance, sold on September 30, 1930 to Harold Jamison at par plus accrued interest.		
Par Value of Bonds	$50,000	
Interest to September 30th	625	
Total sale price of bonds	$50,625	

The interest earning should be set up as indicated, in a separate account and then later closed to profit and loss.

Interest on Treasury Bonds

As in the case of treasury stock, bonds that have been reacquired by the Company, through purchase or otherwise, for investment or for sinking fund purposes, may be considered treasury bonds. In the event that the bonds have not been cancelled the accounting procedure with reference to the accrual and payment of interest would be the same as discussed previously. The coupons when paid by the trustee for the amount of interest on the bonds owned by the Company would be returned to the Company's cash account, and interest income credited. The Company that has issued the bonds considers the treasury bonds as investments, receives the interest and handles the transaction in the same manner as investments in other companies. The following entry records the interest income on treasury bonds:

Accrued Interest on Investments (or Accrued Interest from Treasury Bonds)	$12,500	
Interest Earned on Bonds		$12,500
To record accrual of interest on $500,000 of First Mortgage 5% Treasury Bonds of Company.		

Income Earned on Bonds

A determinable amount of interest, therefore, which has accumulated is usually entered on the books as an accrual at the end of each month.

As an illustration, it is assumed that the Bradstreet Manufacturing Co. owns $600,000 of 5% First Mortgage Bonds of the Union Corporation. The interest is payable January 1st and July 1st. The entry to be made for the accrual of this interest at the end of each month would be as follows:

January 31, 1930.

Accrued Interest on Bond Investment	$2,500	
Interest on Bond Investment		$2,500
To record interest earned for month of January on $600,000 5% First Mortgage Bonds of the Union Corporation.		

At the end of the sixth month or June 30, 1930, the following amounts in the general ledger would appear as follows:

ACCRUED INTEREST ON BOND INVESTMENT

1930	
Jan. 31	$2,500
Feb. 28	2,500
Mar. 31	2,500
Apr. 30	2,500
May 31	2,500
June 30	2,500

INTEREST ON BOND INVESTMENT

1930	
Jan. 31	$2,500
Feb. 28	2,500
Mar. 31	2,500
Apr. 30	2,500
May 31	2,500
June 30	2,500

The accounts now stand at $15,000 each respectively. The asset account of "Accrued Interest on Bond Investment" would be closed when the payment is received.

July 1, 1930.

Cash	$15,000	
Accrued Interest on Bond Investment		$15,000

To record payment of interest of 5% on $600,000 First Mortgage bonds paid July, by Union Manufacturing Corporation.

It should be understood that if the bonds owned were registered bonds a check of course would be sent directly to the Bradstreet Manufacturing Co. On the other hand if these were coupon bonds the coupons would be presented to the trustee or fiscal agent and payment made at the agent's office.

Other Forms of Interest Earned

Under this heading would come any income derived from bonds of other companies and such other items of interest as may be earned on Mortgages Receivable, Notes Receivable, Bank Deposits and interest earned on miscellaneous obligations other than stock.

Where interest is payable the amounts are due and collectible at the date of maturity. In this respect an earning of this character should be differentiated from that of dividends on preferred stock. Although in the latter case where the stock is cumulative, it does not necessarily hold that the income will be paid because the dividend must first be actually declared by the Board of Directors.

Interest as Capital Charge

Under the rulings of the various state and public utility regulatory commissions, certain charges of public utility companies are capitalized. It would be considered correct accounting procedure if other corporations capitalized legitimate expenditures made during the construction of buildings, plant property or extension of equipment. Where real estate has been purchased for development purposes, all amounts expended up to the time of offering the land for sale or tending to improve the property are included as a cost of the property. Some of these charges may represent improvements, miscellaneous development expenses, legal fees, the interest on borrowed money, interest on outstanding bonds and items of expenditures of a similar character. These different expenditures are usually set up in appropriately headed accounts, and at the end of a particular period, or when the construction or development has been completed, a transfer entry is made and the respective items are carried into the construction account or any other account which conforms to the proper accounting procedure.

Buildings (or other Property Account)	$48,725	
Construction Expenses		$ 7,500
Interest on Notes Payable		7,300
Interest on Mortgages Payable		15,900
Discount on Bonds		18,025

To record transfer of above mentioned accounts, which represent construction expense, and proportionate amount of discount for this period on bonds issued for construction extension purposes.

If there are separate construction projects special accounts for each should be set up on the books.

CHAPTER XVI

RESERVES AND SINKING FUNDS

Funded Reserves

Special funds may be established from the available cash of a corporation, for the accomplishment of any specific purpose.

The reasons for setting aside these funds are numerous. The purpose may be to carry out a building project in the future, to replace equipment that becomes worn out or is used for experimental purposes, or to retire bonds upon maturity date, etc.

Funds are not a part of the profits of the company and in reality are not paid out of profits, but out of the existing asset "Cash."

There are times when from the standpoint of conservatism an organization will set aside what is known as "Funded Reserves."

The object of this procedure is not merely to set aside a certain amount of cash for a specific purpose, but to prevent that cash from being expended in the form of dividends, etc., until the desired object has been accomplished.

In order to do this, periodically a certain sum is set aside usually with a trustee or some other designated person so that it may accumulate over a period of time until the required amount is secured. The cash is transferred from the regular cash account to a special cash account, the books of the company showing an entry that would debit a fund account bearing a name that clearly indicates its intention and credit cash.

The money now having been transferred it is desired to set aside an equal amount out of profits, so that they cannot be declared in the form of a dividend, the payment of which might embarrass the corporation while it is trying to keep this amount of cash intact. And so at the same time that the cash is set aside an entry is made on the books of the company which will "debit" the Profit and Loss or Surplus account and "credit" a Reserve properly set up to indicate its purpose.

Considerable criticism has been offered with reference to the setting up of "Funds" in certain instances where

the thought is advanced that it is poor economy to set aside money which might only secure a limited percentage of income in the form of interest, whereas if the same money were used in the regular course of the business as working capital a greater return on the investment might be secured.

But the setting aside of a regular amount which in a given time with interest will total the desired amount and so insure its availability when needed seems to be the method generally accepted by those concerned. For example, in the issuance of bonds, corporations frequently find that the Reserve Fund method is the most satisfactory means of affording protection to prospective investors and ensuring the success of the issue.

The Purpose of the Sinking Fund

The object of arranging for periodical payments for amortization of bonded indebtedness is plain in the case of corporations engaged in mining and other occupations where the result of the operations of the business are such as will deplete the security behind the bonds. Sinking funds are also usually arranged in connection with bond issues of industrial corporations partly because such arrangements have a stabilizing effect on the market for the bonds and partly because, in view of the fluctuation of earnings characteristic of some industrial corporations the progressive reduction of the debt increases the margin of security of the bondholder. Sinking fund payments by such companies are usually defined in terms of a percentage of net earnings, thereby preventing the hardships which would ensue during periods of depression, if provisions were made for equal applications annually. In some instances, however, the sinking fund payments are based on a specified percentage on the principal amount of bonds outstanding.

How Sinking Fund Payments Are Employed

The practice which formerly existed of authorizing the trustee to invest the sinking fund moneys in securities unconnected with the business of the mortgagor has now fallen into disuse. It is considered preferable, according to the modern view, to authorize the trustee to employ the fund to purchase bonds which, as directed in the indenture, may be cancelled or may be held by the trustee for collection of interest to be paid into the sinking fund. In some instances it is provided that the bonds shall be cancelled but that the payments shall be increased by an amount

equivalent to the interest that would have been collected on the cancelled bonds.

Provision for Sinking Fund

The most common type of "reserve fund" is the sinking fund for the redemption of bonds. Such funds may be created in different ways. An average amount may be set aside each year for a period of years, as for instance where bonds are to mature within twenty years, one-twentieth of the entire amount would be set aside yearly. Or we may take the amount of the debt to be paid and divide it by the amount of the annuity of $1 for the given term at a designated rate. The quotient will represent the amount of dollars to be set aside in each of the sinking fund installments.

However, attention is called to the fact that the manner of creating the sinking fund is usually set forth in the Trust Deed.

The accounting entries for sinking funds are simple. On the assumption that the Iron and Steel Corporation with a 5% bond issue for $2,000,000 maturing in twenty years requires a semi-annual deposit to a sinking fund of $50,000 the entry at each six months' period would be as follows:

January 1, 1929.

Sinking Fund	$50,000.00	
Cash		$50,000.00

To record deposit made this date with trustee in accordance with specifications of the trust deed covering the company's $2,000,000 bond issue.

It might here be noted that if there were several different bond issues to be redeemed at different times, separate sinking funds should be created and properly designated.

Each time the sinking fund receives credit for earned interest, entries will have to be made to make certain that the sinking fund shall bear its proper deposit entry so that it will show the actual amount of cash on hand at all times.

Such an entry would appear as follows:

December 31, 1929.

Sinking Fund	$2,000.00	
Interest on Sinking Fund		$2,000.00

To record annual interest at 4% received on sinking fund deposit of $50,000.

The income thus set up would be transferred to the Profit and Loss account at the time of closing by the following entry:

December 31, 1929.

Interest on Sinking Fund	$2,000.00	
Profit & Loss		$2,000.00

To close the Interest on Sinking Fund account to Profit & Loss.

Let us next assume that it is the custom of the company to make all accrual entries monthly. This would mean that the interest on the Sinking Fund account would have to be taken into consideration at the end of each month. The monthly entry for the interest accrual on the first $50,000 deposit would be as follows:

January 31, 1929.

Accrued Interest on Sinking Fund	$166.66	
Interest on Sinking Fund		$166.66

To accrue one month's interest on sinking fund deposit.

At the time of closing on December 31, 1929 this entry would be made:

December 31, 1929.

Sinking Fund	$2,000.00	
Accrued Interest on Sinking Fund		$2,000.00

To record the receipt of cash covering annual interest on sinking fund deposit.

Sinking Funds in Hands of Trustee

The question sometimes arises as to the proper accounting to be employed in the case where the sinking fund is in the hands of a trustee and the trustee invests these funds in securities.

In the first place when the money is turned over to a trustee the entries as shown previously would debit the "Sinking Fund Trustee" instead of merely a "Sinking Fund" account. This being done, it will be seen that the fact that the trustee invests the money in securities does not make any particular difference as far as the accounting entries are concerned, since the trustee is responsible for the funds entrusted to his care and he has already been debited or charged with them on the records of the company.

However, should the company desire to have these investments show, an entry could be made as follows:

July 31, 1929.

Sinking Fund Investment	$50,000.00	
Sinking Fund Trustee		$50,000.00
To record purchase by the trustee of 5% bonds of the Amalgamated Steel Structure Co.		

At the time of receiving income from such investments, this income would be recorded in the following manner:

January 31, 1930.

Sinking Fund Trustee	$1,250.00	
Income from Sinking Fund Investment		$1,250.00
To record the receipt of 6 mos. interest on the 5% bonds of the Amalgamated Steel Structure Co.		

If it is desired to accrue this interest monthly, entries similar in nature to those illustrated in the case of ordinary interest on sinking funds could be made. An example of these entries follows:

August 31, 1929.

Accrued Interest on Sinking Fund Investment	$208.33	
Income from Sinking Fund Investment		$208.33
To accrue one month's interest at 5% on sinking fund investment of $50,000.		

January 31, 1930.

Sinking Fund Trustee	$1,250.00	
Accrued Interest on Sinking Fund Investment		$1,250.00
To record receipt of 6 mos. interest on the 5% bonds of the Amalgamated Steel Structure Co.		

Purchase of Company's Bonds by Trustee

An interesting situation arises in the case where the sinking fund trustee is permitted to purchase the corporation's own bonds with the money entrusted to his care.

Similar to all other investments, these bonds may be purchased at either a premium or a discount.

There are several methods open to the accountant in recording entries of this nature. As has been previously explained it is not necessary to make any record at all on the books of the company at the time of the investment by the trustee, since he is already charged with the funds in hand.

On the other hand, if the principle of showing the investment is carried out the trustee naturally must be given credit for the money thus expended and the Investment account set up on the books. An illustration of this procedure follows:

June 30, 1929.

Sinking Fund Investment	$52,500.00	
Sinking Fund Trustee		$52,500.00
To record the purchase by the Trustee of 50 bonds of this company at 105.		

It will be noted that this entry does not take into consideration the premium in a special account, merely giving the trustee credit for the entire amount expended.

The final method is to take into consideration the premium on the bonds in a special account and carry the bonds as an investment at their par value.

June 30, 1929.

Sinking Fund Investment	$50,000.00	
Premium on Investment of Sinking Fund	2,500.00	
Sinking Fund Trustee		$52,500.00
To record the purchase by the Trustee of 50 bonds of this company at 105.		

The question now arises as to how the "Premium on Investment of Sinking Fund" is to be disposed of. Of course the simplest method is to close the account directly to "Profit & Loss" at the end of the year. However, it is contended that since this premium is actually a reduction of the income which the company actually receives from the bonds, the premium can correctly be charged against this income account. In this case it will be seen that it is advisable to record the interest received in a separate account from the interest paid on the bonds, even though one offsets the other due to the fact that these are the bonds of the corporation.

As a further illustration let us assume that the bonds in question were purchased at 95. The entry would then be:

June 30, 1929.

Sinking Fund Investment	$50,000.00	
Sinking Fund Trustee		$47,500.00
Discount on Sinking Fund Investment		2,500.00
To record the purchase by the Trustee of 50 bonds of this company at 95.		

The "Discount On Bonds" would be closed at the end of the fiscal period into "Profit & Loss."

If the bonds thus purchased were held to maturity at which time the entire issue were retired, it will be seen that two entries would of necessity have to be made to close out the bond account, the first of these to take care of the invested amount and the second to cancel the balance of the bonds outstanding.

First Mortgage Bonds $50,000.00
  Sinking Fund Investment $50,000.00
    To record the retirement of that part of the bonds of this company purchased as an investment.

The remaining entry would be to close out the sinking fund with the trustee for the balance of the bonds.

First Mortgage Bonds $1,950,000.00
  Cash $1,950.000.00
    To record the retirement of 1,950 bonds in the hands of purchasers.

If the mortgage under which the bonds are issued contains a provision that in the event the trustee purchases bonds of the issuing company, such bonds be returned to the company and cancelled, the entry recording such cancellation would be made immediately upon the bonds being acquired by the trustee. Using the foregoing illustration again as a basis, the entry at such time would be:

June 30, 1929.

First Mortgage Bonds $50,000.00
Premium on Bonds 2,500.00
  Sinking Fund Trustee $52,500.00
    To record cancellation of 50 bonds of this company purchased by the Trustee.

Accounting for Reserves and Sinking Funds

In order that the proper accounting treatment of "Reserves" and "Sinking Fund" may be understood by the reader, a problem is given herewith, together with the complete entries and ledger accounts involved.

"The Iron & Steel Co. wishes to undertake an extensive building program. In order to secure the capital necessary, the company sold on January 1, 1914, 500 first mortgage 6% bonds of a par of $1000, at 90. The mortgage agreement contained a stipulation that the company should set aside *out of profits* annually, a sum, which with interest

at 3% would equal an amount sufficient to redeem the bonds due January 1, 1920.

"The installments of $77,298.75 were paid yearly to the trustee and the discount on the bonds was written off over their life."

January 1, 1914.

Cash $450,000.00
Discount on Bonds 50,000.00
  First Mortgage 6% Bonds $500,000.00
    To record the sale of 500 bonds at 90.

December 31, 1914.

Sinking Fund $77,298.75
  Cash $77,298.75
    First installment of sinking fund paid to Trustee as per agreement.

December 31, 1914.

Profit & Loss $77,298.75
  Reserve for Sinking Fund $77,298.75
    To set aside out of profits the first installment of the reserve for sinking fund as per agreement.

December 31, 1914.

Profit & Loss $8,333.33
  Discount on Bonds $8,333.33
    To write off 1914 portion of discount on sale of bonds.

December 31, 1915.

Sinking Fund $2,318.96
  Reserve for Sinking Fund $2,318.96
    Interest earned on sinking fund during 1915 to be added to fund.

December 31, 1915.

Sinking Fund $77,298.75
  Cash $77,298.75
    Second installment of sinking fund paid to Trustee.

December 31, 1915.

Profit & Loss $77,298.75
  Reserve for Sinking Fund $77,298.75
    To set aside second installment of reserve for sinking fund.

December 31, 1915.

Profit & Loss $8,333.34
  Discount on Bonds $8,333.34
  1915 portion of discount on bonds written off.

December 31, 1916.

Sinking Fund $4,707.49
  Reserve for Sinking Fund $4,707.49
  Interest earned on sinking fund during 1916.

December 31, 1916.

Sinking Fund $77,298.75
  Cash $77,298.75
  Third installment of sinking fund paid to Trustee as per agreement.

December 31, 1916.

Profit & Loss $77,298.75
  Reserve for Sinking Fund $77,298.75
  Third installment of Reserve for Sinking Fund set aside.

December 31, 1916.

Profit & Loss $8,333.33
  Discount on Bonds $8,333.33
  1916 portion of discount on bonds written off.

December 31, 1917.

Sinking Fund $7,167.68
  Reserve for Sinking Fund $7,167.68
  Interest earned on sinking fund during 1917.

December 31, 1917.

Sinking Fund $77,298.75
  Cash $77,298.75
  Fourth installment of Sinking Fund paid to Trustee as per agreement.

December 31, 1917.

Profit & Loss $77,298.75
  Reserve for Sinking Fund $77,298.75
  Fourth installment of reserve for sinking fund set aside.

December 31, 1917.

Profit & Loss $8,333.33
  Discount on Bonds $8,333.33
  1917 portion of discount on bonds written off.

December 31, 1918.

Sinking Fund $9,701.68
  Reserve for Sinking Fund $9,701.68
  Interest earned on Sinking Fund during 1918.

December 31, 1918.

Sinking Fund $77,298.75
  Cash $77,298.75
  Fifth installment of Sinking Fund paid to Trustee as per agreement.

December 31, 1918.

Profit & Loss $77,298.75
  Reserve for Sinking Fund $77,298.75
  Fifth installment of reserve for sinking fund set aside.

December 31, 1918.

Profit & Loss $8,333.33
  Discount on Bonds $8,333.33
  1918 portion of discount on bonds written off.

December 31, 1919.

Sinking Fund $12,311.69
  Reserve for Sinking Fund $12,311.69
  Interest earned on Sinking Fund during 1919.

December 31, 1919.

Sinking Fund $77,298.75
  Cash $77,298.75
  Sixth installment of Sinking Fund paid to Trustee as per agreement.

December 31, 1919.

Profit & Loss $77,298.75
  Reserve for Sinking Fund $77,298.75
  Sixth installment of reserve for sinking fund set aside.

December 31, 1919.

Profit & Loss $8,333.34
  Discount on Bonds $8,333.34
  1919 portion of discount on bonds written off.

January 1, 1920.

First Mortgage 6% Bonds $500,000.00
  Sinking Fund $500,000.00
  500 First Mortgage bonds redeemed at par.

January 1, 1920.

Reserve for Sinking Fund $500,000.00
  Profit & Loss Surplus $500,000.00
  To transfer Reserve for Sinking Fund to Surplus, as bonds have been redeemed.

Sinking Fund Shown on Balance Sheet

Before closing the discussion on Sinking Funds, it might be well to call attention to the fact that some companies when setting up their balance sheets show these funds as a deduction from the bonded debt of the company, rather than set them up as assets.

It will be seen, of course, that this is a matter of opinion.

It may also be pointed out here that the trustee should keep a separate set of records of his own transactions apart from those kept on the books of the corporation. He would set up a cash account "debiting" it for all cash received from any source and "crediting" an account showing the source from which the cash was derived as for instance, "Sinking Fund" for payments by the corporation, "Income from Investment" for interest, etc., received from the various sources in which he invested the cash. Correspondingly he would credit his Cash account for all payments made therefrom, debiting some proper account showing for what the cash was expended, as for instance "Sinking Fund Investments", for investments made, and "Sinking Fund" when redeeming bonds, etc.

The Ledger Accounts showing the results of previous entries are as follows:

DISCOUNT ON BONDS

1914 Jan. 1	1st Mortgage Bonds	$50,000	1914 Dec. 31	Profit & Loss	$8,333.33
			1915 " "	" "	8,333.34
			1916 " "	" "	8,333.33
			1917 " "	" "	8,333.33
			1918 " "	" "	8,333.33
			1919 " "	" "	8,333.34
		$50,000			$50,000.00

FIRST MORTGAGE 6% BONDS

1920 Jan. 1	Sinking Fund	$500,000	1914 Jan. 1	Cash	$450,000.00
			1914 Jan. 1	Discount	50,000.00
		$500,000			$500,000.00

SINKING FUND

1914 Dec. 31	Cash	$77,298.75	1920 Jan. 1	First Mortgage Bonds	$500,000.00
1915 " "	"	77,298.75			
1915 " "	Reserve	2,318.96			
1916 " "	Reserve	4,707.49			
1916 " "	Cash	77,298.75			
1917 " "	Reserve	7,167.68			
1917 " "	Cash	77,298.75			
1918 " "	Reserve	9,701.68			
1918 " "	Cash	77,298.75			
1919 " "	Reserve	12,311.69			
1919 " "	Cash	77,298.75			
		$500,000.00			$500,000.00

RESERVE FOR SINKING FUND

1920 Jan. 1	Profit & Loss Surplus	$500,000.00	1914 Dec. 31	Profit & Loss	$77,298.75
			1915 " "	Sinking Fund	2,318.96
			1915 " "	Profit & Loss	77,298.75
			1916 " "	Sinking Fund	4,707.49
			1916 " "	Profit & Loss	77,298.75
			1917 " "	Sinking Fund	7,167.68
			1917 " "	Profit & Loss	77,298.75
			1918 " "	Sinking Fund	9,701.68
			1918 " "	Profit & Loss	77,298.75
			1919 " "	Sinking Fund	12,311.69
			1919 " "	Profit & Loss	77,298.75
		$500,000.00			$500,000.00

CHAPTER XVII

BOND REDEMPTION

Method of Redemption

A study of the wording of any bond will indicate that the bond bears upon its face the maturity date, or in other words the date when it will be redeemed and cancelled. In addition, the deed of trust contains certain other provisions that are of importance to the investor, such as specifications that if the bond interest is not paid upon the proper installment date the principal is immediately payable, and the issuing corporation must redeem the bond, or its property is liable to foreclosure.

It is impossible to list the various provisions that deeds of trust may carry for the safeguarding of the bond purchaser. The discussion in Chapter XIV is sufficient to indicate that such conditions should be carefully studied by both the issuing corporation and the person investing in its issues.

Of particular interest are the various methods that are commonly used for the redemption of bonds. These methods vary with the particular type of bond in question. Among those most frequently found are the following:

1—Payment upon maturity date.
2—A periodical calling in of a certain number of bonds.
3—Conversion into stock.
4—Refunding at maturity.
5—Gradual liquidation through serial payments.

In the first case, the bondholder upon presentation of the bond at the date of maturity receives payment in cash. This cash, as will be seen by reference to previous discussions, may be in a special fund set aside for that purpose, or may be in the hands of a trustee who in turn may have converted it into certain types of investment. However, it is the duty of the trustee to reconvert these investments into cash to be available for the retiring of the bonds at the maturity date.

When the second method prevails, a certain number of the bonds outstanding are retired periodically. As discussed in the preceding chapter, bonds may be acquired for the sinking fund. The procedure by which bonds are so

acquired varies according to the terms of the mortgage. Frequently it is provided that bonds shall be drawn by lot by the trustee and redeemed at a fixed price. Sometimes tenders by bondholders are called for and occasionally the trustee is authorized to purchase at a public or private sale. In the event that tenders are to be invited from bondholders notice must be published for a prescribed period in designated publications. The notice is brief and is usually headed by the name of the company and the designation of the issue and recites that the trustee under the indenture gives notice that it will receive sealed offers for the sale for the account of the sinking fund of sufficient of the bonds to exhaust a sum stated to be on deposit with it as trustee. The notice usually includes the statement that tenders must be for all or any part of the bonds offered, must state the price at which the bonds are offered, not exceeding a stated percentage of their principal amount and accrued interest, and tenders must be received at the office of the trustee before a certain hour on a named date. Bonds are also required to be delivered on a date following the date fixed for receipt of tenders, and notice is given that interest on accepted bonds will cease on that date. Usually the mortgage provides that in selecting bonds for redemption, representatives both of the trustee and of the corporation shall be present. In selecting bonds by lot cards are used, each bearing the number of an outstanding bond, care being taken that the cards do not include bonds which have been cancelled or which have been previously acquired for the sinking fund. When the number of cards drawn from the mass represent an amount that will exhaust the sinking fund moneys available, such numbers are listed and published in accordance with the terms of the mortgage. If one of the cards selected bears the number of a registered bond, it is usually provided that notice must be sent direct by mail. The notice of redemption is usually brief, consisting merely of the numbers drawn and a notice to the holders thereof that such bonds will be redeemed on a specified date by payment of the principal, premium and accrued interest, and that interest on the bonds called will cease to accrue from and after that date.

There are arguments which have been advanced for and against the procedure of this method of bond retirement from the standpoint of the bondholder.

It places upon the investor the necessity of watching for announcements of the retiring of his bonds. Should he fail to do this he might find himself holding bonds for a period of time on which no interest is accruing, which

would result in a direct loss to him of any income on the investment.

The period of investment is unequalized since it may result in a short holding for certain investors and a long holding period for others. However, to offset this it is usually found that premiums are paid on the bonds "called" which in a measure offsets any losses that might arise from the foregoing loss of interest incurred. There are in addition other methods of "calling" bonds yearly, without the necessity of drawing by lot. The trustee may buy them in the market or advertise for a certain desired number of bonds which he is willing to purchase at a specified price.

The third case merely indicates that the bondholder has the right at maturity date or such other time as may be specified to convert his bonds into stock of the company at a fixed conversion rate.

The fourth case retires the old bonds, and there are issued in their place new bonds of the company, or the old bondholders are given a cash payment, which cash is received from the sale of the new bonds.

The fifth case is where serial bonds are issued and subsequently liquidated through the medium of installments payable at certain periods in certain fixed amounts.

With this brief explanation of the various redemption methods available we may now consider some of the accounting points involved in these different methods of redeeming bonds.

Let us assume that the Iron & Steel Corporation has an issue of $1,500,000 of First Mortgage 5% Sinking Fund Bonds which mature on August 31, 1929. We shall further assume that the funds have been set aside yearly based on a scientific calculation which assures the exact amount being available at maturity for the purposes of redemption through accumulation of both principal and interest. The trustee would have in his care on August 31, 1929 the total sum of $1,500,000. The following entry would therefore be made on the books of the corporation:

August 31, 1929.

First Mortgage 5% Sinking Fund Bonds $1,500,000.00
  Sinking Fund Trustee $1,500,000.00
    To record payment by the Sinking Fund Trustee of the First Mortgage 5% Sinking Fund Bonds of this company due this day.

If the funds were not in the hands of a trustee, the entry would differ only in the nature of the account credited.

August 31, 1929.

First Mortgage 5% Sinking Fund Bonds $1,500,000.00
  Sinking Fund $1,500,000.00
    To record payment this date of the First Mortgage 5% Sinking Fund Bonds of this company.

Let us further assume that the trustee had invested $1,000,000 of the required amount in certain types of investments, which investments were carried on the books of the corporation. It will be seen that this investment account would have to be closed and this would be done by an entry as follows:

August 31, 1929.

Sinking Fund Trustee $1,000,000.00
  Sinking Fund Investment Account $1,000,000.00
    To record the conversion into cash by the Trustee of investments originally held by him.

It might here be noted that it is usually the custom to set up also a reserve out of profits in amounts equal to the cash invested in the sinking fund. In such instances where reserve accounts were created they would have to be closed out at the time the bonds are retired. This entry would be as follows:

August 31, 1929.

Reserve for Sinking Fund $1,500,000.00
  Surplus $1,500,000.00
    To transfer the Sinking Fund Reserve to the Surplus account as the bonds of this corporation have this day been redeemed.

This sum is now available for dividends. If it is desired that the restored reserve amount should not be made so available it would be desirable to credit some special account other than "Surplus." This may be done by crediting the reserve to some specially designated Surplus account.

Method No. 2

Bonds that are called for redemption may, if so provided for by the deed of trust, be held by the trustee as a sinking fund investment, or they may be returned to the corporation for cancellation. If they are treated as a sinking fund investment, the entries that are made will be the same as any other investment made by the trustee. Such entries have been fully covered and explained in previous chapters.

Method No. 3

Let us further assume that the trust deed provides that the bonds of the Iron & Steel Corporation shall be converted into stock at the date of maturity. The entry to record this would be as follows:

August 31, 1929.

First Mortgage 5% Convertible Bonds $1,500,000.00
  Preferred Capital Stock Unissued $1,500,000.00
    To record the issuance of 15,000 shares of the preferred stock of this corporation in exchange for 1500 First Mortgage 5% convertible Bonds maturing today.

Method No. 4

In studying the entry necessary in the case of Refunding Bonds, it might be well to give some consideration as to why such procedure is followed.

There are several reasons why corporations commonly make provision for refunding bonds at maturity or other specified dates. Many bonds have to be issued at a time when it is necessary for the corporation to pay a high interest rate or in cases where the company is not well known. Realizing that the time might come when investors can be more easily attracted without recourse to high interest payments, provision is sometimes made to permit the corporation to take advantage of this plan and thus cut down the fixed charge of interest. Another reason is that bond investors usually are desirous of obtaining a fair return on their money and incidentally a sufficient guarantee that the investment has a definite permanency. Long term investments, with more certainty of security, are preferable to a short term form of investment. This refunding clause therefore gives an added assurance to investors where the corporation is sound financially.

There is also a far more important reason from the standpoint of the corporation. If the corporation by the use of the funds received from the sale of the bonds can secure a greater income than the interest that must necessarily be paid on the bonds, it employs sound judgment by refunding the issue, as it does not have to part with its cash to pay off the old bonds.

Let us now assume that the Iron & Steel Corporation is refunding the bonds maturing at this date.

August 31, 1929.

First Mortgage 5% Bonds $1,500,000.00
  First Mortgage 4½% Bonds (New Issue) $1,500,000.00
    To record refunding of $1,500,000 first mortgage 5% bonds (old) of this corporation due this date with bonds of the new issue.

Method No. 5

If the bonds of the Iron & Steel Corporation were of the serial type, yearly entries would have to be made resulting in a gradual cancellation of the outstanding bonds.

If we therefore assume that the $1,500,000 issue was dated August 31, 1928 with the provision that $75,000 should be cancelled each year for a period of twenty years, the following entry would be made on August 31, 1929 and each succeeding year thereafter until August 31, 1948:

August 31, 1929.

First Mortgage 5% Serial Bonds $75,000.00
  Cash $75,000.00
    To record payment of the first installment on the First Mortgage 5% Serial Bonds of this company due today.

Before leaving the study of bond redemption, it should be noted that in case the bonds were issued in the nature of Collateral Trust Bonds, the proper entry will have to be made at the time of maturity to record the return to the corporation of the collateral pledged with the trustee. This assumes that an entry was made at the time to record the transfer of the collateral from the regular investment account and set it up in a pledged investment account.

August 31, 1929.

Collateral Trust 5% Bonds $1,500,000.00
  Cash $1,500,000.00
    To record payment made this date of Collateral Trust 5% bonds now maturing.

August 31, 1929.

Investments $1,750,000.00
  Pledged Investments $1,750,000.00
    To record return of collateral in the hands of the Trustee pledged as security on the $1,500,000 Collateral Trust Bonds of this corporation maturing and paid today.

Up to the present we have been considering the entries that would be made on the books of the corporation under the various methods of redeeming bonds.

At this point let us make a slight digression and take one illustration of the entries that could be made on the books of the purchaser of bonds; for example, where the company reserves the right of redeeming bonds on any interest date. A complete study of such a problem will be sufficient to prepare the reader to handle any other problem of redemption of a simpler nature. We will use the following hypothetical case:

An executor purchases seventy-five $1,000 first mortgage bonds of the Iron & Steel Corporation, which bear interest at the rate of 5%. The interest is payable January 1 and July 1 of each year. The price paid was $76,767.54 and will yield the purchaser 4%. The bonds had five periods to run from the date on which they were purchased, January 1, 1909.

These bonds were issued under a sinking fund agreement whereby the company reserved the right to redeem them on any interest date, drawing by lot, and at a price which was not to exceed 105. Accordingly the purchaser received due notice that 25 of the bonds which he held were to be redeemed on July 1, 1910. He presented the bonds and received payment at 105.

In addition, on September 30, 1910 the executor received an offer for another 25 of the bonds which he sold at 103 plus accrued interest for three months. The 25 remaining bonds were held until maturity.

January 1, 1909.

Iron & Steel Company 5% First Mortgage Bonds	$76,767.54	
Cash		$76,767.54

To record purchase of 75 of these bonds.

July 1, 1910.

Cash	$1,875.00	
Interest on Bonds		$1,535.35
Iron & Steel Co. 5% First Mortgage Bonds		339.65

To record the cash received as interest on bonds and to make distribution to both interest and premium account in the proper proportions.

January 1, 1910.

Cash	$1,875.00	
Interest on Bonds		$1,528.56
Iron & Steel Co. 5% First Mortgage Bonds		346.44

To properly distribute interest received this date on above bonds.

July 1, 1910.

Cash	$1,875.00	
Interest on Bonds		$1,521.63
Iron & Steel Co. 5% First Mortgage Bonds		353.37

To properly distribute interest received this date on above bonds.

July 1, 1910.

Cash	$26,250.00	
Bond Redemption Account		$26,250.00

25 Bonds of the Iron & Steel Co. redeemed this day at 105.

July 1, 1910.

Bond Redemption Account	$25,242.69	
Iron & Steel Co. 5% First Mortgage Bonds		$25,242.69

To transfer to the Bond Redemption Account the the book value of 25 bonds redeemed today at 105.

July 1, 1910.

Bond Redemption Account	$1,007.31	
Profit & Loss		$1,007.31

To close the Bond Redemption Account to Profit & Loss.

October 1, 1910.

Cash	$26,062.50	
Bond Sales		$25,750.00
Interest on Bonds		312.50

To record proceeds of sale of 25 bonds of Iron & Steel Co. together with three months' interest thereon.

October 1, 1910.

Bond Sales	$25,242.69	
Iron & Steel Co. 5% Bonds		$25,242.69

To transfer to Bond Sales the book value of 25 bonds sold today.

October 1, 1910.

Interest on Bonds	$60.08	
Bond Sales		$60.08
To record amortization for three months on 25 bonds sold this day.		
5% on par value, 3 months	$312.50	
4% on book value, 3 months	252.42	
Amortization	$ 60.08	

October 1, 1911.

Bond Sales	$567.39	
Profit & Loss		$567.39
Profit on sale of 25 bonds transferred to Profit and Loss account.		

January 1, 1911.

Cash	$625.00	
Interest on Bonds		$504.85
Iron & Steel Co. 5% Bonds		120.15
To properly distribute interest received this date on above bonds.		

July 1, 1911.

Cash	$625.00	
Interest on Bonds		$502.45
Iron & Steel Co. 5% Bonds		122.55
To properly distribute interest received this date on above bonds.		

July 1, 1911.

Cash	$25,000.00	
Iron & Steel Co. 5% Bonds		$25,000.00
25 bonds of the Iron & Steel Co. redeemed this day at par.		

In presenting the foregoing problem it is taken for granted that the reader has familiarized himself with the method of handling bonds purchased at either a premium or discount, the accounting treatment of which has been fully discussed in previous chapters.

In addition the following ledger accounts in skeleton form are presented herewith as an aid in tracing the values as shown in the preceding entries:

IRON & STEEL CORPORATION 5% FIRST MORTGAGE BONDS

Jan. 1	Cash	$76,767.54	1909 July 1	Cash	$ 339.65
			1910 Jan. 1	Cash	346.44
			July 1	Cash	353.37
				Bond Redemption	25,242.69
				Balance	50,485.39
		$76,767.54			$76,767.54
1910 July 1	Balance	$50,485.39	1910 Oct. 1	Bond Sales	$25,242.69
			1911 Jan. 1	Cash	120.15
			July 1	Cash	122.55
				Cash	25,000.00
		$50,485.39			$50,485.39

CASH

1909 July 1	Interest on Bonds	$ 1,535.35	1909 Jan. 1	Iron & Steel Co. Bonds	$76,767.54
	Iron and Steel Co. Bonds	339.65			
1910 Jan. 1	Interest on Bonds	1,528.56			
	Iron and Steel Co. Bonds	346.44			
July 1	Interest on Bonds	1,521.63			
	Iron and Steel Co. Bonds	353.37			
	Bond Redemption	26,250.00			
Oct. 1	Bond Sales	25,750.00			
	Interest	312.50			
1911 Jan. 1	Interest on Bonds	504.85			
	Iron & Steel Co. Bonds	120.15			
July 1	Interest on Bonds	502.45			
	Iron & Steel Co. Bonds	122.55			
	Iron & Steel Co. Bonds	25,000.00			

INTEREST ON BONDS

1910			1909		
Oct. 1	Bond Sales	$ 60.08	July 1	Cash	$1,535.35
1911			1910		
July 1	Balance	5,845.26	Jan. 1	Cash	1,528.56
			July 1	Cash	1,521.63
			Oct. 1	Cash	312.50
			1911		
			Jan. 1	Cash	504.85
			July 1	Cash	502.45
		$ 5,905.34			$ 5,905.34

BOND REDEMPTION ACCOUNT

1910			1910		
July 1	Iron & Steel Co. Bonds	$25,242.69	July 1	Cash	$26,250.00
	Profit and Loss	1,007.31			
		$26,250.00			$26,250.00

PROFIT AND LOSS

			1910		
			July 1	Bond Redemption	$1,007.31
			1911		
			Jan. 1	Bond Sales	567.39

BOND SALES ACCOUNT

1910			1910		
Oct. 1	Iron & Steel Co. Bonds	$25,242.69	Oct. 1	Cash	$25,750.00
	Profit & Loss	567.39		Interest on Bonds	60.08
		$25,810.08			$25,810.08

CHAPTER XVIII

DEPRECIATION RESERVES AND OTHER RESERVES

Definition of Depreciation

Depreciation has been defined as a deterioration of some asset which gives rise to a loss in the value of the property represented. This loss is considered as arising from the use of the asset over a period of time.

A better definition is: The cost of a service rendered by some fixed asset during the fiscal period under consideration.

This latter definition would consider depreciation during such fiscal period as bearing the same ratio to the original cost of the asset as the amount of service rendered during that period bears to the total service that the asset is estimated to be capable of giving.

Depreciation versus Depletion

Although depreciation arises from the use of a tangible asset, it has no reference to any "physical" factor of deterioration. It measures the use or service of the asset rather than its physical being.

Depletion, on the other hand, is applied to those assets which are used up and cannot be replaced. The life of such assets is not prolonged by any repairs or renewals.

Material resources such as mines, timber areas, etc., are examples of the assets which give rise to depletion.

The Causes of Depreciation

Naturally the chief causes of depreciation are wear, tear and age. In addition, there are the factors of obsolescence, accidents, inadequacy, and expiration if the period in which the right to use an asset is limited.

The factors of age, wear and tear are those most readily understood. Age brings with it depreciation regardless of the action of any other factor. The older a piece of equipment gets, the less its value. Over this factor there is little control that can be exerted. Wear and tear can be slightly retarded by establishing a policy of proper repairs and maintenance.

Obsolescence results from some development which changes the methods of production such as the invention of

a new machine, etc., thus lessening the value of the old equipment.

Accidents include those contingent factors which result from negligence and the action of the elements, etc.

Inadequacy may be brought about in several ways. Equipment which served its purpose well at the time of its installation may through growth of the business be inadequate to meet the increased demands for its service. Abandonment of the original method for which the equipment was purchased and new developments making the old equipment useless are illustrations of other factors that lead to inadequacy.

Tenure of holding may limit the right to use an asset to a definite period of time. An illustration of this is supplied by buildings placed upon leased ground, which buildings cannot be removed and must be abandoned at the end of the lease period. Provision should, therefore, be made for such decreases in the buildings' valuation over the period of the lease due to this factor.

Types of Depreciation

Depreciation is looked upon in different ways dependent upon the standpoint from which it is viewed. To the engineering profession depreciation means the difference between the original cost of the asset and the amount it would bring if sold. However, this does not exactly coincide with the accountant's viewpoint. For accounting purposes the loss is regarded as spread over the period of time commencing with the date the equipment is actually put into service and ending when it is retired.

Among the various types of depreciation often referred to are the following:

A. Unit Depreciation
B. Composite Depreciation
C. Functional Depreciation

Unit Depreciation

Unit depreciation sets forth exactly what its name implies, the depreciation on one of the parts which compose the entirety of the property. For instance, a plant may be composed of many units with depreciation rates varying, each unit taking its own rate according to the conditions affecting its service and life.

Composite Depreciation

Composite depreciation is that method of depreciation which considers the entire property as a unified whole and

has a flat depreciation rate applied thereto. Thus the value of the property is determined by deducting from its 100% valuation the rate of depreciation which is fixed for the whole property.

Functional Depreciation

This type of depreciation has been described as covering any factors that work against the proper "functioning" of the asset and, therefore, lessening its value to a "going concern."

Relationship of Repairs and Maintenance to Depreciation

Undoubtedly, there is a direct relationship between the factors of repairs and maintenance and the subject of depreciation.

For instance, the accountant is frequently asked how repairs are to be carried on the company's books, if reserves have been set up for depreciation. To answer such a question intelligently, of course consideration must be given to the method that has been followed in setting up the depreciation reserve. If the reserve has been set up in an amount intended only to provide for the replacement of the asset, then the expenditures for repairs, etc., should not be charged to this reserve but directly against income.

The method of setting up a reserve for repairs in order to spread such a cost evenly over the life of the asset has been advocated.

In the study of cost accounting depreciation is presented as a fixed charge against operations. This naturally is done with the idea of ascertaining the correct costs of doing business.

Effects on Depreciation of Cost of Production

In the study of Cost Accounting depreciation is presented as a fixed charge against operations. This naturally is done with the idea of ascertaining the correct costs of doing business.

There is no question about the correctness of such procedure. The life of a machine, for instance, is used up in the process of producing the manufactured article and, therefore, plays a definite part in its cost of production.

Factors for Consideration in Fixing Depreciation Rates

Among the many factors that must be considered in fixing the depreciation rates are the following:

A.—The nature of the asset together with its type of construction. In the case of buildings, for instance, it would be essential to know whether the construction was of wood, brick, concrete, etc.

B.—The company's policy as to expenditures for repairs and maintenance.

C.—The effect of deterioration, such as wear and tear, etc.

D.—The possibility of the introduction of new machines of different type.

E.—The effect of changing market conditions.

Various Methods of Calculating Depreciation

The various methods of calculating depreciation in common use are as follows:

1. Straight line method.
2. Working hours method.
3. Reducing balance method.
4. Sinking fund method.
5. Service output method.
6. Composite life method.
7. Diminishing value method.
8. Maintenance method.
9. Gross earnings method.
10. Appraised value method.
11. Annuity method.

Straight Line Method

Under this method, the asset is written off over the estimated period of its life. To determine the yearly charge to depreciation, the scrap value of the equipment is deducted from its original cost and the remaining factor divided by the number of estimated residual years of use.

Working Hours Method

Under this method the life of the asset is calculated not on the period of years but on the basis of the number of estimated working hours it will be in service.

The amount for each period is found by first deducting the scrap value from the original cost and then taking that fractional part of this balance represented by the number of hours operated during the period over the total estimated working hours of life.

Reduction Balance Method

Under this method, a constant percentage is charged off each year on a decreased balance. A rate is found that if applied against the reduced balance each year, will at the end of the period of estimated life result in writing off the original cost less scrap value. It thus becomes an amortization problem.

Sinking Fund Method

This method is based upon the determination of an amount which if set aside each year will, together with its compound interest, total the amount of the cost of the asset less its scrap value. Thus each year there is charged off this fixed amount plus the accrued interest for the period and this sum set aside for replacement. Usually an actual fund of cash or other property is set aside so that at the time the asset is written off there will be available an amount in actual cash or other tangible value to purchase the new equipment.

Service Output Method

This method is similar to the "Working Hours Method" except that the basis of computation is the quantity of output rather than the number of working hours.

Composite Life Method

Depreciation under this plan is calculated on the plant as a whole rather than by considering each asset item individually.

Diminishing Value Method

This plan is somewhat similar to the "Reducing Balance Method" except that the former is scientifically determined so that at the end of the estimated life the reserve for depreciation will be sufficient to cover the writing off of the asset, whereas this plan merely reduces the appraised balance each year by a fixed percentage.

Maintenance Method

This plan assumes the making of a charge each period equal to the cost of maintaining the asset during that period.

Gross Earnings Method

This plan attempts to set up a reserve for depreciation based upon the estimated earnings during the composite life

of the plant. A fractional part of the composite cost of the plant is written off by taking that proportion which the earnings for the period bear to the estimated earnings over the life period.

Appraised Value Method

Under this plan the asset is appraised at the end of each period and the difference between such appraisal and the value at the end of the subsequent period is charged off.

Annuity Method

This method is similar to the sinking fund method except that there is added to the periodic charge an amount equal to the interest on the various appraised values of the assets at successive periods. It has the effect of charging to the cost of production interest on the invested capital as embodied in the various assets employed in production. Under this method a tangible fund, as in the case of the sinking fund plan, would be actually set aside to pay for the purchase of the new equipment when the old has been used up.

Object of the Depreciation Discussion

Since the object of this discussion on depreciation is to show the manner of recording depreciation on the corporate books the various methods of determining the depreciation calculations mentioned previously are not mathematically presented. The reader can secure this information wherever necessary through a reference to the several standard works on depreciation. Further discussion of this subject is, therefore, centered around the entries made to record the depreciation after the amount has been determined.

Accounting for Depreciation

The entries made upon the books represent two factors, the first the charge against earnings for the decrease in value of the asset and the second the actual decrease of the asset itself.

This latter factor is established by either setting up a reserve for depreciation or an actual reduction of the asset account. The reserve method is most frequently used.

In setting up the reserve, the following monthly entry would be made after the amount had been determined:

Provision for depreciation of Machinery $1,000
  Reserve for depreciation of Machinery $1,000
    To provide for monthly depreciation on machinery at the rate of 10% per annum of the book value of $120,000.

The entry that records the actual reduction of the asset account would be:

Provision for depreciation of Machinery $1,000
  Machinery $1,000
    To write off monthly depreciation at rate of 10% per annum on Asset of machinery, cost value of $120,000.

The reserve method is preferable as it allows the asset account to show the actual original cost until finally written off when the property is discarded.

In setting up the balance sheet the reserve, although representing at best only an estimate of the depreciation should preferably be deducted from the asset account rather than to state the reserve on the liability side, as it is an actual reduction of the value shown in that account and has no place with other profit reserves and is not a liability.

Effect of The Annuity Method on Accounting

All the other methods of calculating depreciation are recorded similarly as previously illustrated except where the annuity method is used. In such case, as the interest on the invested capital is considered part of the cost of the asset, the account with the asset is increased periodically by the following entry:

Machinery—(Dr.)
  Interest on Invested Capital—(Cr.)

Then, according to the fixed depreciation rate, there is also included in the amount of the periodic depreciation charge the amount of interest as mentioned above. Both of these amounts make up the periodic depreciation charge as shown in the entry hereunder.

Provision for depreciation of Machinery—(Dr.)
  Reserve for depreciation of Machinery—(Cr.)

At the time of replacing the property, the reserve account would be transferred to the asset account in the following manner:

Reserve for depreciation of Machinery—(Dr.)
Machinery—(Cr.)

If the periodic reserve had been set up with the intention that at the end of the life of the asset, it would total an amount equal to the difference between the original cost of the asset and its scrap value, at this point in the accounting procedure there would be a balance in the machinery account representing such scrap value. If the machinery were sold for the scrap or residual value as indicated on the books the Machinery account would be closed as follows:

Cash—(Dr.)
Machinery—(Cr.)

If, however, the machinery did not realize anything for scrap, this balance would be closed by the following entry:

Surplus—(Dr.)
Machinery—(Cr.)

In other words, any balance remaining in the asset account after closing out the reserve, and applying the amount received as scrap value is transferred to Surplus. This can be done as in the previous entry or by first setting up an account which will show the profit or loss on the sale if sold for more or less than the scrap value. If an amount greater than the residual value is realized the entry should be:

1. Cash—(Dr.) (For amount actually received.)
2. Machinery—(Cr.) (For balance in account after closing out the reserve to the asset account.)
3. Profit on Sale of Machinery—(Cr.) (For profit which is in excess of residual or scrap value.)

If less than the residual or scrap value is realized, the following entry would be made:

1. Cash—(Dr.) (For actual amount received.)
2. Loss on Sale of Machinery (Dr.) (For loss which is less than residual or scrap value.)
3. Machinery—(Cr.) (For balance in account after closing out reserve to the asset account.)

The attention of the reader is called to the fact that under the sinking fund method of depreciation, an amount

in cash is set up equal to the reserve, in order to have the necessary funds to replace the equipment. Each time the periodic depreciation is set up an additional entry should be made for a similar amount showing the setting up of the cash fund also. This entry would be:

Sinking Fund—(Dr.)
Cash—(Cr.)

Whenever interest earned by the sinking fund is added to the fund, the following entry would be made to bring the value of the reserve up to the fund:

Sinking Fund—(Dr.)
Reserve for depreciation—(Cr.)

From the corporate viewpoint, it can be seen that if an amount is set up periodically which is greater than actually necessary to take care of the proper depreciation, a secret reserve is created.

Secret reserves are sometimes utilized in order to secure minority holdings at depreciated values or for other stock manipulations.

On the other hand, if the corporation fails to create a sufficient reserve, dividends may be paid which include part of the capital that should have been set aside to replace the property.

More and more investors are studying the financial statements rendered by corporations with great intelligence. It, therefore, behooves the corporation to be careful in its method of presenting the facts to the investing public.

As an exemplification of this statement, the reader is asked to consider the status of bondholders in a corporation that has not set aside a reserve for depreciation. Unless such depreciation is treated as an operating expense, the interest paid to such bondholders on their loans can possibly be paid out of the proceeds reserved from the sale of assets which he has every right to consider as constituting the security for his loan.

An instance of the necessity of careful accounting with respect to depletion and the important bearing upon dividends is presented in the discussion in Chapter XXV of the notices from Texas Gulf Sulphur Company regarding right of stockholders, under Federal Revenue laws, to treat distribution from depletion reserves as capital distributions.

Further, if the item of depreciation in violation of the universal practice, is eliminated from the balance sheet, the statement will not present an accurate picture of the assets.

A final thought is that by eliminating the factor of depre-

ciation from the accounts, the corporation may be subject to a tax on profits which in reality do not exist.

Where intangible properties such as patent rights, trademarks, formulæ, etc., are written down the asset account should be credited directly with the amount of the periodic depletion charge. This is based on the fact that these assets have a definite known life and the depletion represents an actual charge and not an estimated amount. The entry to record the depletion charge would therefore appear as follows:

Depletion of Patent Rights	$10,000	
Patent Rights		$10,000
To write off annual depletion on Patent Rights based on 1/17 of book value of asset of $170,000.		

In the case of wasting assets, such as mining properties, timber lands, etc., the amount of depletion of the property is set up as a reserve. The following journal entry illustrates the procedure:

Depletion of Mining Property	$4,000	
Reserve for Depletion of Mining Property		$4,000
To record amount of depletion on mining property based on 200,000 tons of ore mined at rate of depletion allowance of .02 per ton.		

The depletion charge is fixed, of course, only to the rate of allowance; but the actual amount of the depletion charge is dependent upon the tonnage mined, or other form of measurement which may be used based upon the particular type of wasting asset involved.

For a comparative discussion of intangibles and wasting assets reference is made to Chapter XIX.

Depreciation Percentage Used on Buildings, Machinery and Equipment

A considerable variance is observed in the rates of depreciation used by prominent corporations on buildings. In the table presented in Fig. 54 are shown the depreciation rates adopted by the corporations named therein. The rates are allocated to two major classifications, "buildings" and "building equipment fixtures and accessories." As will appear from an examination of the table few corporations have reported allowance of depreciation under the second classification. The classification "buildings" has been divided into the sub-classifications, "groups," "land

improvements," "factory," "power house" and "sheds." The classification "building equipment, fixtures and accessories" has been divided into "fixtures and equipment," "plumbing," "cement sidewalks, streets, pavements, etc." and "conveyors."

In Fig. 54 are also presented depreciation rates, used by prominent corporations in connection with machinery and equipment. The rates are allocated into the following classifications: "factory," embracing "machinery" and "equipment," "tools," "jigs and dies," "moulds and patterns," "vacuum cleaning," "automobiles, trucks, electric and gasoline trucks," "electric signs," "baling station equipment," "office furniture and fixtures."

Depreciation Policies

By way of supplementing the data shown in the tables, certain corporations have explained their depreciation policies in detail and such explanations are presented here:

General Electric Company

"The value of a plant, therefore, cannot safely be determined by first cost nor by appraisal on the basis of reproduction cost less normal depreciation.

"It is for these reasons that the Company has followed the policy of providing a general plant reserve in excess of normal depreciation rates, so as to enable it to take promptly out of service buildings or equipment which, although not worn out physically, are inefficient and uneconomical. Failure to provide such a reserve would make the management much slower to abandon inefficient buildings and machinery, and would make the Company less able to meet new conditions and therefore, less effective in economical production and in competition."

Radio Corporation of America

"The Corporation's depreciation policy with respect to patents is to amortize the cost of each patent on a yearly basis over its life, so that when the patent expires it will be written off the Corporation's books."

The American Tobacco Company

"The policy of the Company with respect to depreciation on machinery and fixtures, and office furniture and fixtures, is to set aside annually in a reserve account such an amount as will suffice at the end of the useful life of the property, estimated to be at an average of twenty years,

to replace the property. Ordinary repairs and renewals are charged to expenses. As to real estate, a depreciation on basis of 3% is set up on whole value of land and improvements to cover depreciation of improvements."

A. M. Byers

"Depreciation is provided on buildings, machinery and equipment at rates established by independent engineers. These rates are designed to cover all maintenance and repair charges except jobs costing less than $50 which are absorbed in operating expenses."

The New York Central Railroad Company

"Depreciation is dealt with in accordance with the requirements of the Interstate Commerce Commission."

United States Steel Corporation

"(1) The subsidiary companies respectively set aside from their earnings allowances based upon the cash investment value, at time of acquirement, of property subject to exhaustion and depreciation..... In the case of improvements subject to deterioration, the depreciation annually provided therefor, is arrived at by extending against the investment cost various percentage rates dependent upon the type and relative use made of the property and the estimated period it will be serviceable, subject to ordinary running repairs charged current operating expenses and costs. The average rate thus charged for all property is about 5%, based on average normal operations.

"(2) In addition to the foregoing the Corporation itself from its own income has heretofore made a further annual allowance to amortize the cost to it of its investment in stocks of subsidiary companies, to the extent that such cost to the Corporation (based on the par value of its securities issued therefor and cash cost of stocks acquired for cash) was in excess of the subsidiaries' investment in tangible property at date the Corporation acquired their stocks. Additional amounts have also been appropriated from time to time from general surplus account for similar purpose. This aggregate, together with further allowances from surplus contemplated to be made in 1929, will have amortized a total amount of original investment in intangible values to the full sum it is deemed necessary to write off such values."

Depreciation Percentage Used on Buildings

Name of Company	Buildings: Groups	Land Improvement	Factory	Power House	Sheds	Building Equipment, Fixtures and Accessories: Fixtures and Equipment	Plumbing	Cement Walks and Pavements	Conveyors
General Electric Co			See Text						
General Motors Corp	3%	5%							
Radio Corp. of Amer			See Text						
National Cash Register Co.	2½%			15%			3%		10%
Pullman, Inc.	2%		See Text						
E. I. du Pont de Nemours, Inc.	3 to 6%					3 to 6%			
B. F. Goodrich Co.	2%								
Eastman-Kodak Co.	2%				7½%				
Sears Roebuck & Co.	A 1½%		E 2%			5%		10%	10%
American Tobacco Co		3%							
Allis-Chalmers Mfg. Co.	2%								
American Bosch Magneto Co.	2%					2%			
Gillette Safety Razor Co.	2%					2%			
International Harvester Co.	2 to 5%								
Oliver Farm Equipment Co.	2 to 10%		A-5% B-3½% C-2½%						
Cutler Hammer, Inc.	3 to 5%								
A. M. Byers Co.	F 8.35%		G 8.85%		H 10.82%				
The Celotex Co.					10%				
Crown Cork & Seal Co.	2%								

A-Reinforced Concrete B-Concrete C-Brick & Concrete D-Brick G-Pittsburgh Plant E-Mill Constructed (wood) F-Office Bldg. H-Girard Rolling Mill

Fig. 54: Depreciation Rates Used by Prominent Corporations

Depreciation Percentages on Machinery and Equipment

Name of Company	Factory: Machinery	Factory: Equipment	Tools, Jigs and Dies	Moulds and Patterns	Vacuum Cleaners	Automobiles, Motor Trucks, Motor Cycles	Electric Signs	Baling Machine Equipment	Railroad Tracks	Locomotive Cars and Equipment	Office Furniture and Fixtures
General Electric Co.		See Text									
General Motors Corp.	10%	10%									10%
Radio Corp. of Amer.		See Text									
National Cash Register Co.	7½%	15%	10%			15 to 20%				10 to 15%	7½%
Pullman, Inc.	5%				10%	20%				5%	
E. I. du Pont de Nemours, Inc.						30%					
B. F. Goodrich Co.	5%	5%									
Eastman-Kodak Co.	7½ to	20%	20%			25 to 40%					10 to 20%
Sears Roebuck & Co.	5%					20%			5%		10%
American Tobacco Co.		See Text									
Allis-Chalmers Mfg. Co.	5%										
American Bosch Magneto Co.	5%		10%	5%		15%					5%
Gillette Safety Razor Co.	10%		20%			25%	10%				10%
International Harvester Co.	10%	5 to 10%									
Oliver Farm Equipment Co.											
Cutler Hammer, Inc.	3 to	10%	20%								
A. M. Byers Co.						20%					
The Celotex Co.								10%			12%
Crown Cork & Seal Co.	8%	8%	15%								

Fig. 54:—Concluded

CHAPTER XIX

GOOD WILL, TRADE MARKS AND PATENTS

Definition of Good Will

Good will has been defined as the intangible asset of a business represented in the established and continued patronage of its customers. It may consist of a demand for a product, created by advertising, or public confidence in the reputation for honesty and fair dealing or in the quality of product or of service. It may be largely dependent upon an advantageous location. In the case of an advertised brand of goods, the good will may be inseparably attached to a trade mark. The existence of good will is predicated upon a period of development. It cannot be present in an entirely new enterprise.

A definition of good will that perhaps conveys more adequately the conception existing in financial circles of this intangible asset is that it comprises the capitalized value of the excess income which a particular concern, because of the peculiar advantages of prestige, efficiency or location attaching to its established business, is able to realize over a normal enterprise in the same industry, having the same capital investment. This definition is not entirely acceptable from the accountant's standpoint in that it does not distinguish between good will that has been developed with the growth of the business and that which has been acquired by purchase.

Legal Characteristics

Mention of good will is first found in the early English law reports in connection with contracts for the sale of businesses in which the seller agreed not to compete with the purchaser. At first the attitude of the courts was that such agreements were against public policy unless confined to proper territorial or time limits. The difficulty in defining when such limitations were proper or improper has resulted in a tendency to apply the broad test, whether the covenant against competition is a means of effecting the transfer of good will. If the transaction can be so regarded the agreement will be upheld, but if the intention is to go beyond the transfer of good will the agreement will not be supported. Although the rights involved had their

origin in contract, and the courts in instances of sale of legal and medical clienteles would have avoided many perplexities and confusions, if they had confined themselves strictly to the contractual nature of such transactions, good will has long been considered in the eyes of the law as a property right. The common law and statutes of many states afford the same protection to good will as to tangible property, although as expressed by Chief Justice Fuller, "It (good will) is tangible only as an incident as connected with a going concern or business having a locality or name." According to the weight of authority it is inseparably associated with the other assets of a business and cannot be sold except in connection with at least some part of those assets.

Valuation of Good Will

As good will may be in some instances the most valuable asset of the business, it must be practically possible to determine what the value is in a particular case. It has, however, proved very difficult to develop any standard method of valuation. The circumstances affecting good will vary in each case, and in a particular case it is necessary to anticipate future developments in the light of the previous history. The usual basis of valuation is perhaps the average net profits made during the three years preceding the sale. Sometimes five and in one instance (Tiffany & Co.), ten years have been taken as the basis. A majority of the American decisions approve of the use of a two, three or four year period and seem to favor the deduction of a fair rate of interest on the invested capital. It has also been considered good practice to allow the deduction of an additional sum representing a fair salary of the management. After making the deductions, the remainder furnishes the basis for a capitalization of good will, using a percentage appropriate to the type of business.

To determine the amount of invested capital usually involves an appraisal of fixed assets and a careful accounting presentation of the values of current assets. The rate of interest taken is generally the normal, as distinguished from the legal rate at which capital can be obtained for the particular type of business at the time, although the legal rate has been approved by the courts of New York.

The number of years "purchase" of profits to be taken in valuation of good will of a particular business requires consideration of the nature of the business, whether manufacturing or merchandising, whether nation-wide or local, whether the products are staple or varying, and whether

the good will is institutional, that is, connected with the house and embracing a number of products, or centered on a particular brand.

To ascertain the amount to be taken for salaries of the management, consideration must be given to the type of ability required and the usual rate of compensation for such services in the particular industry.

Accounting Treatment of Good Will

The practice approved by a majority of accountants is not to bring the item of good will on the books unless it is purchased, in which case the sum paid is set up on the books as the value of the purchased asset. This practice is in harmony with the view that accounts are kept primarily from the standpoint of the owners of the business. The function of the accounts is to present the status of capital invested by the owners, during its various changes, caused by purchases of property or of the services of others. The presentation of the results of such changes, according to the prevailing practice, is not to include any values, however great, which have not been directly acquired by such capital changes. Values resulting from inherent advantages in the enterprise or supplied by the services of the owners cannot be capitalized without distorting the true picture of invested capital and its rate of earnings. Such a capitalization of good will by transferring the excess earnings from income to assets, and leaving only that part of the actual yield attainable by a normal enterprise as the fictitious representation of earnings works a misrepresentation both as to capital investment and earning rate.

Good Will in the Accounts of a Newly Organized Corporation

As stated in a preceding paragraph good will cannot be present in an entirely new enterprise. In the discussions on capital stock and no par value stock it was made plain that in the case of a newly incorporated company with par value stock such stock must be issued only for cash or property or services which, measured by one of the three standards laid down by courts of various states, must constitute a substantial equivalent at least for the par value of the shares. It follows that the custom of designating as good will the discrepancy between par value of stock issued and property of lesser value is grossly improper and that the grouping of good will under such circumstances with other titles, such as patents, royalties, and so forth, is

equally subject to criticism. The proper accounting disposition of the amount of the margin by which determined value of the property falls short of the amount of par value stock is to treat it as discount on stock.

It frequently occurs, of course, that a newly incorporated company purchases the good will which has been developed by an established business. If this intangible asset has been made the subject of a particular bargain the situation presents no difficulty even though the good will has not been carried on the books of the vendor as a separate asset. The actual consideration paid determines the value, and as a purchased asset it is carried on the books in a separate account. The two facts that, first, it was proper for the vendor corporation not to recognize good will in its accounts as an asset, and, second, that the vendee corporation could give such recognition on its books with propriety, are not irreconcilable. Viewing good will as the advantage emanating from the personal services of the management of the vendor corporation, or as an attribute of the peculiar character of the business, and not as the product of a transition of capital there was no sound foundation for disturbing the original and true representation on the books of invested capital and supermarginal earnings. On the other hand, when the vendee corporation exchanged a part of its capital fund for the specific item "good will" the representation of good will as an asset merely gives effect to the true character of the transaction.

Good Will in the Accounts of Merged or Affiliated Corporations

Instances are sometimes observed of good will being set up on the books of a merged, consolidated or holding corporation where theretofore it had not been recognized either on the part of any component of the combination or by the absorbing or the principal corporation. If an analysis of the circumstances reveals that there was adequate exchange of definite property or money values for the good will the case simply falls within the border line of established practice. At the time of the acquisition, for example, by the National Cash Register Company of the capital stock of the Ellis Adding Typewriter Company, there appeared on the pro forma consolidated balance sheet at August 31, 1928, among the assets of the latter company, the item, "Good Will" (representing premium paid for capital stock of subsidiary company)——$955,578.

A situation which presents a more difficult problem is that encountered in the case of combinations where a payment is made in an amount in excess of the value of tangible assets for a latent "good will" which consists principally of publicity which has not been carried to the point where earnings are above normal. The result of the combination will be that the application of resources made available from the combination will develop this latent good will into an actual good will evidenced by a super-earning power. As a matter of fact, what is purchased is a potential rather than an actual earning factor and yet the present value to the combination of the potential earning factor cannot be disputed. Such a potential earning factor does not come within our definition of good will and to so label it is a misnomer.

Advertising Expenditures

Although a part of the cost of advertising resulting in an extensive demand for a product is sometimes shown as an expenditure on account of good will on the books, this does not accord with the principles discussed in the preceding paragraphs nor with the practice followed by the majority of corporations. For example, such companies as A. M. Byers Company, Radio Corporation of America, Commercial Solvents, Gillette Safety Razor and the Eastman Kodak Company either carry good will at $1. or "nil."

In the balance sheet of the Burroughs Adding Machine Company as of December 31, 1929, the good will item has been written off. The balance sheet for 1927 showed this item as $5,123,212 and for 1928 as $3,099,212.

Good will is often grouped with other titles, such as patents, patent rights, trade name, contracts, brands or other intangible values. The following items appear on the balance sheets of the corporations named:

Continental Motors Corporation—
Patents, good will, trade name and other intangible values $5,908,316.55

General Motors Corporation—
Good will, patents—
Dec. 31, 1927 ..... $43,687,708
Dec. 31, 1928 43,673,475
June 30, 1929 44,803,661

E. I. DuPont de Nemours & Company—
Patents, good will, and so forth—
June 30, 1928 ..... $24,932,313
June 30, 1929 28,344,591

Simmons Company—
Good will—
Dec. 31, 1927 ..... $898,953
Dec. 31, 1928 898,953
June 30, 1929 898,953

Allied Chemical & Dye Corporation—
Patents, processes, trade marks and good will—
Dec. 31, 1927 ..... $21,305,942
Dec. 31, 1928 21,305,942

Sears, Roebuck & Company—
Good will, patents, etc.—
Dec. 31, 1927 ..... $20,000,000
Dec. 31, 1928 15,000,000

Allis-Chalmers Manufacturing Company—
Patents and good will—
Dec. 31, 1927 ..... $13,042,857
Dec. 31, 1928 13,425,885
June 30, 1929 13,425,885

American Tobacco Company—
Brands, trade marks, patents, good will, etc.
Dec. 31, 1927 ..... $54,099,430
Dec. 31, 1928 54,099,430
July 1, 1929 54,099,430

William Wrigley, Jr. Company
Good will, patents, etc.
Dec. 31, 1927 ..... $6,209,615
Dec. 31, 1928 6,209,413
Dec. 31, 1929 6,081,061

Accounting Procedure in Connection With Good Will

In order to explain the accounting procedure in connection with the creation of good will on the books of a corporation, the following problem is illustrated where John Crowthers turns over his business to the Crowthers Manufacturing Corporation. The balance sheet of his business is shown at June 30, 1929.

JOHN CROWTHERS

BALANCE SHEET, AS OF JUNE 30, 1929.

ASSETS		LIABILITIES AND NET WORTH	
Land	$ 25,000	Mortgages Payable	$ 50,000
Building	75,000	Notes Payable	79,800
Machinery & Equipment	90,000	Accounts Payable	70,200
Merchandise Inventory	135,000		$200,000
Office Equipment	7,500	Net Worth	$280,000
Auto Trucks	12,500		
Notes Receivable	45,000		
Accounts Receivable	75,750		
Cash	14,250		
Total Assets	$480,000	Total Liabilities & Net Worth	$480,000

(A) The business is sold for $500,000 to the Crowthers Manufacturing Company.

(B) The Company has been incorporated under the laws of the State of New York with an authorized capital stock of $500,000, divided into 5000 shares of the par value of $100 each.

(C) Stanley Haug, one of the incorporators, advances $2,000 for the preliminary organization expenses.

(D) Subscriptions for stock in the new company have been received from:

John Crowthers	3000 shares.
Adam Smythe	1000 shares.
Stanley Haug	1000 shares.

It will be noted that the Crowthers Manufacturing Company buys the business for $500,000
The assets (net) of the sole proprietorship are 480,000

*$ 20,000

John Crowthers has now turned over his business to the Crowthers Manufacturing Corporation and the books are opened as follows:

July 1, 1929

The Crowthers Manufacturing Corporation has this day been organized under the laws of the State of New York with an auth-

* The corporation capitalized this difference by creating the asset good will on its books.

orized capital stock of $500,000 consisting of 5,000 shares of the par value of $100 a share.

Capital Stock Unissued $500,000
  Capital Stock Authorized $500,000
    Note: It is better practice to show the "Capital Stock Authorized" amount on the books.

The next journal entry in order to conform strictly to the legal requirements, and to express logically the development of the accounting facts, would be to record the subscriptions received.

Subscribers to Capital Stock $500,000
  Subscriptions to Capital Stock $500,000
For subscriptions received from the following:

John Crowthers	3000 shares
Adam Smythe	1000 shares
Stanley Haug	1000 shares

The terms of payment are:

John Crowthers	$300,000 for plant property
Adam Smythe	100,000 for cash
Stanley Haug	100,000 for cash

The following entry places the net asset amount on the books and records the liability obligation due the vendor:

Plant and Sundry Assets $300,000
  John Crowthers, Vendor $300,000
    To place on books of the Company purchase price of plant acquired from John Crowthers (agreement approved by Board of Directors and ratified by stockholders at meetings, etc.).

This entry cancels the subscription obligation of the vendor who has subscribed to the purchase of company stock:

John Crowthers, Vendor $300,000
  Subscribers to Capital Stock $300,000
    To record full payment received from John Crowthers in settlement of his subscription through transfer of his business to this Corporation in accordance with agreement, etc.

In the cash book entries would appear for the receipt of cash from the other two subscribers:

Cash $200,000
  Subscribers to Capital Stock $200,000
For payments received from stock subscriptions as follows:

Adam Smythe	$100,000
Stanley Haug	100,000

The subscription account is then closed by the issuance of the stock, entry for which is as hereunder:

Subscriptions to Capital Stock $200,000
  Capital Stock Unissued $200,000
    For issuance of stock certificates, Numbers 1 and 2 to Adam Smythe and Stanley Haug for 1000 shares each.

The stock is also issued to the vendor and entry made as follows:

Subscriptions to Capital Stock $300,000
  Capital Stock Unissued $300,000
    To record certificate Number 3 for 3000 shares issued to John Crowthers.

The journal entries as previously illustrated have brought on the books of the corporation all the necessary facts in order to record the official acts relating to the formation of the company, the sale of its stock and the purchase agreement as entered into with John Crowthers.

Land $25,000
Building 75,000
Machinery and Equipment 90,000
Merchandise Inventory 135,000
Office Equipment 7,500
Automobile Trucks 12,500
Notes Receivable 45,000
Accounts Receivable 75,750
Cash .....* 14,250
Good Will 20,000
  Mortgages Payable $50,000
  Notes Payable 79,800
  Accounts Payable 70,200
  Plant and Sundry Assets **300,000
    To record and place on books assets acquired and liabilities assumed in connection with business of John Crowthers taken over by Corporation July 1, 1929.

Assets Acquired (Net) $480,000
Good Will 20,000

Total Assets $500,000
Liabilities .....** 200,000

Net Purchase Price as agreed $300,000

(*agreement includes transfer of cash also.)
(**payable in company stock)

(Here recite minutes of stockholders and directors meetings to show approval and ratification of agreement to purchase plant of John Crowthers.)

As stated previously all cash entries should clear through the cash journal. Fig. 54a represents the cash book of the corporation. All disbursement expenditures of incorporation as well as receipts from subscribers are set forth.

Increase of Good Will on Books

In some instances good will, contrary to general practice, has been increased on the books of certain enterprises. This has happened, although infrequently, where the company has been organized principally for purposes of resale. It is maintained that a good impression is produced on potential buyers of the business, when the good will is shown at its apparent worth, and that inasmuch as the company's business is highly profitable, this fact should be evidenced on the books. To show the good will at merely a nominal amount, not commensurate with its true value, is hardly desirable; it is contended because in that case instead of showing the fallacious value of only $1.00, the item good will should be left off the books entirely.

The large corporation which shows this intangible factor, largely instrumental in the production of its profit, at $1.00, has usually no immediate desire to sell its business. The small company, however, may be primarily organized with the view to offering its business for resale when a profitable stage has been reached. To increase good will on the books, in view of the fact that its influence as a profit producer is rarely ever considered for borrowing purposes, is claimed to have some merit because of the attempt to set a value on this asset which approaches actual worth.

To give effect to an increase of good will on the books (when it is desirable) an entry would be made in the general journal as follows:

Good will	$190,000	
Capital Surplus		$190,000
To record on books increase in asset of good will from original amount of $10,000 to $200,000.		

It should be noted that the account Capital Surplus has been credited, which procedure is more desirable, than to create merely an offset account in the form of a reserve. Regardless of the amount stated on the books, it is considered that the sale price of the asset "good will" would

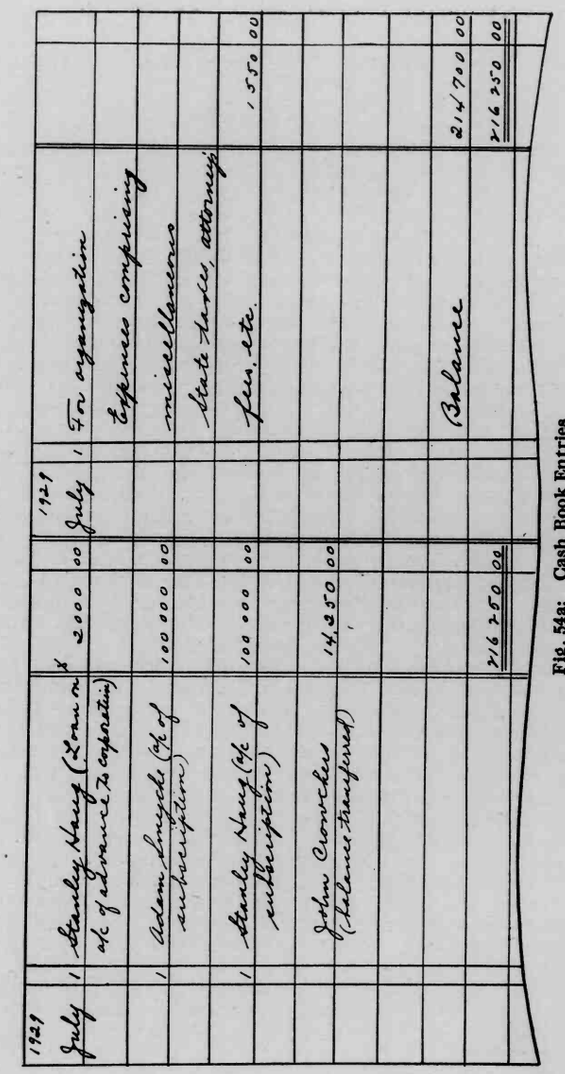

1921
July
1 Stanley Haug (Treasurer a/c of advance to corporation) 2000 00
1 Adam Lloyds (a/c of subscription) 100 000 00
1 Stanley Haug (a/c of subscription) 100 000 00
John Crowthers (Balance transferred) 14 250 00
216 250 00
1921
July
1 To organization Expenses comprising miscellaneous state taxes, attorneys fees, etc. 1 550 00
Balance 214 700 00
216 250 00

Fig. 54a: Cash Book Entries

be subject to calculation based on some approved accounting method.

Going Value

The term "going value" is employed in connection with utility corporations in substantially the manner that "good will" is used in relation to business corporations. It has been defined as "the value a plant has over and above its physical value due to the fact that it is not a bare and idle system, but is in actual operation, doing business with large numbers of contented customers. It is something like the goodwill of a business but is even more tangible." Generally speaking, it may be described as the difference between the amount which could be realized on the sale of all assets of a public utility corporation just prior to the time it actually begins operation, but after its plant and equipment have been acquired and made ready to operate, and the amount resulting from the sale of the same properties after it has been carrying on business for a considerable time, say for two or three years. The same physical assets would be involved in either sale. In the one case, however, the sale would transfer an inanimate enterprise; in the other, a functioning, going concern which had developed an organization to operate the business, established a substantial patronage, and perhaps to some extent overcome the operating losses incident to its organization and beginning of business. The significant factor of going value is, therefore, the lapse of time.

This conception of an intangible asset and the title applied to it were originated to function in the capitalization of public utilities as a substitute for the good will of industrial enterprises, because Public Service Commissions do not allow utilities to capitalize good will. The essential condition of going value is that time is required (1) to erect and put in operation the company's plant and facilities through which it will render the service to the public, (2) to lay out an orderly procedure of operation for the manufacture and distribution of the company's product, (3) to secure and train a force of executives and employees in their new duties and bring them up to a reasonable operating efficiency, and (4) to familiarize the public with the merits of the product to the point where they will purchase freely.

During the period of establishment and of early development earnings will usually be far below what capital is entitled to earn when invested in this particular industry under reasonably efficient management and operation. The justification of permitting the capitalization of going value

in connection with the regulation of rates of public utilities is that investors in such enterprises, requiring a considerable period of development before a normal rate of income can be earned, are restricted to a lesser return than investors in other enterprises unless early capital losses and unrealized income are capitalized. The result of the recognition of this intangible asset is that the public utility corporation whose rate is prescribed by the law is granted the privilege of fixing its prices at a level that will earn at the prescribed rate an adequate return not only on its actual investment but upon capitalized losses and unrealized income as well.

The discussion of the legal doctrines which have been laid down in the cases and the formulæ for arriving at "going concern value" would not be possible to include within the limitations of this chapter.

Patents

The Government of the United States, and those of most other countries, grant to the inventor of a special mechanical device or to the discoverer of a scientific formula, a patent under which he is given an exclusive right to manufacture the product resulting from his invention or discovery for seventeen years. Not long ago, the Federal Government granted to Mr. Thomas A. Edison a patent on his recently discovered process of converting goldenrod into rubber. For seventeen years Mr. Edison will have an exclusive right to produce synthetic rubber by this process.

The accounting practice in respect to patents is similar to that which has been presented in connection with good will. If the corporation purchases patents the purchase price is set up on the books as an asset value. If the patents are paid for by the issuance of par value stock, under the rules which have been discussed elsewhere the par value of the stock will be accepted as the index of value in the absence of evidence to the contrary. Giving effect to this presumption of value is the more unobjectionable in that any possible over-valuation will be gradually eliminated through the periodical depletion charges. Amortization should be based on length of life of the patent and earning power. The true value of a patent is the earning power which it gives to the corporation and although it is customary, in respect to patents which have been obtained through experiments carried on within the corporation, to capitalize the cost of development, all incidental expenses, and the cost of securing the letters patent, there

is less objection to recognizing the clearly demonstrated market value of the patent rights than in the case of good will.

In making the periodic entries for depletion of the patent right it is perhaps less important to determine which of the methods described under the chapter on depreciation should be adopted, than to decide upon a definite method at the outset, and to see that the value of the asset is written down systematically.

Accounting Procedure in Connection With Patents

The accounting treatment of patent rights, trade marks, formulæ, or any special franchise, which may be turned over to the corporation in payment for its capital stock received, is shown on the books in the following manner:

Patent Rights	$100,000	
Capital Stock Issued		$100,000
To record issuance of 1000 shares of the capital stock of the Johns-Harris Corporation in exchange for patent rights assigned to the Company.		

The issuance of stock for any other intangibles would be treated in a similar manner. The asset acquired would be debited and the capital stock issued in exchange therefor would be correspondingly credited.

As discussed in a preceding paragraph it is customary to capitalize any expenditures incidental to the intangible carried on the books. It is understood, of course, that any amounts charged to the intangible asset account will increase the amount of depreciation to be written off annually.

Copyrights

Authors of books, pamphlets, magazine articles, etc., or their agents are granted the exclusive right by the Federal Government to publish their works for a term of years and to reap the benefits thereof. In the case of books, for example, which because of their merit and/or the publicity they receive, become so-called "best sellers," the rewards resulting from such copyrights may be considerable.

As in the case of other intangible assets, copyrights are carried on the books of the corporation at cost. In view of the fact that the period of active earning of a copyright work may be short it is frequently necessary to allow a rapid depreciation rate. Valuation and depreciation however will depend on the circumstances of the particular case.

Trade Marks and Trade Names

Many manufacturers sell their products under specific names or descriptions which by advertising become household words with the mass of people who have need of such commodities. As a result consumers select products so advertised thereby bringing the volume of such commodities above the levels attained by competitive products not so advertised. When such a catchy phrase as "Not a cough in a carload" or "I'd walk a mile for a Camel" is seen or heard by the mass of cigarette smokers, the mental image of the particular brand of cigarettes so identified immediately registers, and suggests the purchase of a supply of the cigarettes in question.

Irrespective of whether or not the trade mark or the trade name has been registered with the Federal Government, the right to merchandise a manufacturer's product under a particular mark of identification, may not be infringed by a competitor.

The accounting practice with respect to trade marks is the same as that described in connection with patents. A trade mark right purchased from another corporation or from an individual should be carried on the books at the purchase price, as an asset. If the trade mark has been originally secured by the corporation and the product to which it relates has been advertised by the corporation, the cost of procuring the trade mark and of developing it including a reasonable proration of advertising expense, may properly be capitalized.

Periodical revaluations and depreciation allowances are customarily made in the same manner as in the case of good will.

Franchises

Mr. H. A. Foster[1] defines a franchise as "a privilege given by the community to a private person—or corporation—for use of the public property for the benefit of the public, and only incidentally is it the intention of the community in granting such a right, to allow the person accepting the same enough profit to insure his willingness to take advantage of it by investing in plant to make use of the grant." The Federal Court stated in the case of the Consolidated Gas Co. of N. Y. 157 Fed. 373: "The franchise

[1] In "Engineering Valuation of Public Utilities and Factories."

is but a part of the power or privilege of sovereignty allotted to a private person, for the benefit of all, and only incidentally given for private emoluments."

The term "Franchise" appears almost exclusively on the balance sheet of public utilities or *quasi*-public utility companies where it is used for rate-making rather than commercial purposes. Inasmuch as public utility companies are subjected to the control and supervision of state public service commissions, their accounting methods are prescribed for them.

This privilege may be granted by the local government in perpetuity, for a limited number of years or for an indeterminate period, in which latter case it is revocable under certain conditions, at the will of the local authorities. The contract by which the franchise is granted will have a vital bearing upon the method of handling such accounts and the valuation of such assets. A franchise should be set up on the books of the corporation at cost. These costs may legitimately include the purchase price, fees of various kinds in connection therewith, together with such other expenses as may be legitimately incurred in procuring the franchise and such lump sum payments to the authority granting the franchise as may be required.

Where the franchise is granted in perpetuity, it is unnecessary to provide for depreciation. If granted for a limited term, a depreciation charge is prorated over the life of the franchise and if granted for an indeterminate period the depreciation policy should be correspondingly liberal. Not all states provide a rule, determining the method of handling depreciation. Where no standard practice prevails, care should be taken to guard against the inclusion of such items until their legitimacy and value have been ascertained.

Organization Expenses

The Interstate Commerce Commission has defined those intangible expenses incurred in the organization of a new company in its Uniform Classification of Accounts for Telephone Companies when it said, "this includes the cost of preparing and distributing prospectuses, the cost of soliciting subscriptions for stock (but not for loans nor for the purchase of bonds or other evidences of indebtedness), cash fees paid to promoters, and the actual cash value at the time of organization of securities paid to promoters for their services in organizing the enterprises; counsel fees; cost of preparing and issuing certificates of stock; and

the cost of procuring certificates of authorization from state authorities and other like costs.

Without incurring at least some of these expenses, no company can be incorporated and begin to function. To these expenses may be added the cost of installing the machinery and equipment, the preparation of all the necessary details preliminary to the start of actual operation and the bringing into being of a harmoniously functioning organization. The value of the assets so organized is greater than that of the same assets unorganized. The capitalized total of organization expenses should represent the sum by which the value of the former exceeds that of the latter.

Authorities in the United States favor writing off such organization expenses currently or at most by the close of the second year's business operations. Where such charges are carried under proper title and do not cover up inflation schemes of the promoters, a somewhat longer period might be used to write off the organization expenses.

Formulae and Trade Secrets

In the manufacture of numerous commodities, secret formulæ are a very fundamental part of the company's assets. An American manufacturer of dyes would undoubtedly place a very high value upon the secret processes used by the German dye industry if he were able to procure the formulæ. Where expenses of developing or acquiring such secret formulæ or processes have been incurred they should be set up at cost. When no protection may be obtained from the government a rapid depreciation of this asset should be made before the asset becomes valueless through the discovery by a competitor of the secret process.

Accounting Treatment of Intangibles In General

In preparing the balance sheet of any number of companies, one, perhaps several, of these intangible assets may be encountered. In some cases no exact money cost can be stated as the original cost, yet these intangible elements may be vital to the company's very existence. In setting up the balance sheet the accountant must either ignore these assets altogether because of the difficulty or impracticability of ascertaining their original cost, or else estimate what present value attaches to them based upon their potential earning capacity for the future benefit of the company.

Two chief difficulties face the accountant in his attempt to estimate the potential value of an intangible asset to

the company; *viz.*, (1) The intangible assets exist and function only in conjunction with other assets of the corporation and (2) it is impossible to predict the continuous operation of the intangible due to the uncertainty of business conditions over which no control may be exercised.

Cost might well be used as the basis for the determination of intangible value. But that does not always represent a true value. Years may be spent in the production of a patent which is of no material value upon its perfection. On the other hand, a by-product of research directed towards other goals may yield much. As an example of a by-product we might cite the development of the original phonograph by Mr. Edison, which cost little to perfect and no doubt has yielded substantially in earnings.

The valuation of an intangible as placed on the balance sheet today may be altogether different tomorrow. In recent years science has moved forward with giant strides. Mechanical devices, secret formulæ or processes which may be of very considerable value today may be obsolete tomorrow due to other more recent developments.

In the case of patents, even granting that the company may continue to produce the article without competition from some similar product until the expiration of the relatively brief life of the patent, the value of the intangible asset must be materially decreased annually as the years come and go.

When prosperous times yield large returns, the intangible asset is of real value. At such times charging off a portion of the amount carried on the books representing intangible items often results in an understatement of value. Yet in such times many companies arbitrarily remove intangibles from their balance sheet. When business depressions occur actual values of intangible assets may largely disappear yet to remove them at that time from the books may seriously affect the financial statement of the company.

Whatever the value of intangibles determined upon, by whatsoever method used, the items which carry such values should be listed separately under appropriate revealing captions.

CHAPTER XX

PROFIT AND LOSS

The importance of a careful study of the factors of profit and loss cannot be over-emphasized. In the accounts which reflect the various items of an organization's income and expense lies the story of the changes in the company's "Net Worth."

These profit and loss accounts have often been termed "explanatory accounts" for they give the reasons for the increase or decrease in proprietorship (exclusive, of course, of any additional investments or retirements of capital).

Undoubtedly the mere fact that a certain profit has been made or loss sustained is not sufficient information for the executive with whom lies the responsibility of managing the financial affairs of the enterprise. He should demand complete and detailed information concerning every matter that affects the operations of his organization.

The proposition therefore is apparent that every profit and loss account on the books of an organization is as much a part of the proprietorship as those entries appearing directly in the capital accounts.

It is obvious that if the capital accounts were being reduced by the withdrawal from the business by the management of the cash invested by the proprietors or stockholders without their consent or understanding of the reason for such withdrawals, they would vigorously demand an explanation of such a procedure.

It is equally important that all the elements of income and expense should be fully explained, as their effect is identical with that of any other additions to or deductions from capital.

It is for this reason that the Income and Profit and Loss Statement is prepared to explain the changes in the company's balance sheet. That this Income Statement does explain such changes can be understood if it is realized that any increase in an asset or decrease in a liability without a corresponding decrease in another asset or increase in a liability results in a profit. Conversely any decrease in an asset or increase in a liability without a corresponding increase in another asset or decrease in another liability results in a loss.

The following graphic presentation of components of the balance sheet shows that the changes therein are ex-

plained in detail by the figures presented in the Income Statement:

If the assets are the larger:

Assets minus { Liabilities and Capital } plus Surplus at beginning of period

(or minus Deficit at beginning of period) } equals { Net Profit for Period

Illustration with use of figures:

Assets (at end of Period)		$50,000
Less		
Liabilities	$20,000	
Capital Stock	10,000	
Surplus at beginning of Period	5,000	35,000
Equals Profit for Period		$15,000

If the assets are the smaller:

Liabilities and Capital plus Surplus at beginning of period

(or minus Deficit at beginning of period) } minus Assets equals { Net Loss for Period

Illustration with use of figures:

Liabilities	$20,000	
Capital Stock	10,000	
Surplus at beginning of period	5,000	
Total Liabilities, Capital Stock & Surplus at beginning		$35,000
Assets (at End of Period)		29,000
Equals Loss for Period		$ 6,000

The more complete the classification of accounts setting forth the story of the company's activities the more apparent will the reasons be for the changes in Net Worth.

A study of the ordinary Income and Profit and Loss statement will reveal the fact that the various income and

expense accounts can be classified under the following main groupings:

1. Income from Sales
2. Cost of Goods Sold
3. Selling Expense
4. Administrative Expense
5. Other Miscellaneous Income
6. Deductions from Income
7. Profit and Loss Adjustments

"Income From Sales" Group

This grouping should reflect the complete picture of the sales activities. It comprises Gross Sales, less any deductions therefrom, such as Returned Goods, Trade Discounts, Allowances, Outward Freight and Cartage, etc.

It is, of course, elementary that if the Income from Sales statement is to be of real value to the executives interested in such a statement, the sales should be analyzed and broken up into their various classifications. In businesses dealing with diversified lines of merchandise, the mere presentation of sales as a whole is entirely inadequate. The detailed information regarding particular items may reveal that certain units are selling faster than others, but are not producing the required margin of gross profit.

A simple illustration of this is found in the retail automobile business, where the sales of the dealer or agent may be sub-divided as follows:

1—Sales of New Cars
2—Sales of Used Cars
3—Sales of Tires and Accessories
4—Sales of Gas, Oil and Grease
5—Service Sales, etc.

If the sales were thus analyzed by classes the returns and allowances would be similarly analyzed.

Thus the first important factor in the Profit and Loss story of "Income from Sales" is derived in the following manner:

1 { Gross Sales by classes } Minus { Sales Return by classes } Equals { Net Sales

2 { Net Sales } Minus { All deductions such as 1. Allowances 2. Trade Discount 3. Outward Freight and Cartage, etc. } Equals { Income From Sales

"Cost of Goods Sold" Group

In this grouping are included the Materials, Supplies, Labor and Manufacturing Expense that go to make up the cost of the merchandise sold.

Here again the factors are broken down into their component parts and each item of cost set up separately. The following equations show the result of each step in the process:

1 { Gross Purchases by classes } Minus { Purchase Returns by classes } Equals { Net Purchases

2 { Net Purchases } Plus { Additional Costs such as Inward Freight and Cartage, etc. } Equals { Total Cost of Purchases

3 { Total Cost of Purchases } Minus { Deductions such as Allowances, Trade Discounts, etc. } Equals { Net Cost of Purchases

4 { Net Cost of Purchases } Plus { Inventory of Raw Material at Beginning of Period } Less { Inventory of Raw Material at End of Period } Equals { Cost of Raw Materials Consumed in Manufacture

5 { Cost of Raw Materials Consumed in Manufacture } Plus { Direct Labor and Factory Expenses Analyzed } Equals { Total Manufacturing Cost

6 { Total Manufacturing Cost } Plus { Goods-in-Process Inventory at Beginning of Period } Minus { Goods-in-Process Inventory at End of Period } Equals { Finished Goods Manufactured During Period

7 { Finished Goods Manufactured During Period } Plus { Inventory of Finished Goods at Beginning of Period } Minus { Inventory of Finished Goods at End of Period } Equals { Cost of Goods Sold

If the last factor in equation 7 under this group is deducted from the final factor in equation 2 under the "Income from Sales" group the result will be the "Gross Profit on Sales."

Income from Sales } Minus { Cost of Goods Sold } Equals { Gross Profits on Sales

"Selling Expense" Group

This group presents the detailed items that show the costs of selling. Such costs as Clerical Salaries in the Sales Department, Sales Executive Salaries, Selling Office Expense, Salaries and Commissions of Salesmen, Traveling Expenses, Advertising, etc., are analyzed.

The total of this group if deducted from the "Gross Profit on Sales" will give the Net Selling Profit figure.

Gross Profit on Sales } Minus { Total Selling Expenses } Equals { Net Selling Profit

"Administrative Expense" Group

All classes of expense which are incurred in connection with the administration of the business are included in this grouping. It embraces Salaries of Officers and Clerks, Stationery and Printing, Telephone and Telegraph, Legal Expenses, Insurance, Miscellaneous General Expenses, etc.

The total of the group when deducted from the "Net Selling Profit" will give the operating profit.

Net Selling Profit } Minus { Administrative Expenses } Equals { Operating Profit

"Other Miscellaneous Income" Group

All factors of Income that cannot be classed under the "Income from Sales" group are included under this general classification. They are of miscellaneous character and embrace such accounts as:

Interest on Bonds and Mortgages Receivable
Interest on Notes Receivable
Interest Receivable (of any character)
Dividends Received
Cash Discount on Purchases
Rents Receivable
Royalties Receivable
Commissions Receivable

The total of this group when added to the "Operating Profit" will result in a total figure representing "Total Profit."

Operating Profit } Plus { Other Income } Equals { Total Profit

"Deductions From Income" Group

All items of expense which cannot be classified in the "Cost of Goods Sold," "Selling Expense" or "Administrative

Expense" groups are included here. They embrace among others the following accounts:

Interest on Bonds & Mortgages Payable
Interest on Notes Payable
Cash Discount on Sales
Taxes
Provision for Bad Debts
Depreciation (other than factory)

The total represented by this group deducted from the "Total Profit" gives the net profit for the period.

Total Profit } Minus { Deductions from Income } Equals { Net Profit for the Period

"Profit & Loss Adjustments" Group

Under this group will be found all changes affecting the results of operations of the past period. This is done so that these factors may not be included with the current period and so erroneously affect the results they show.

Surplus at Beginning of Period } Plus { Profit Adjustments During Period } Minus { Loss Adjustments During Period } Equals { Adjusted Surplus at Beginning of Period

Surplus at End of Year

With the Adjusted Surplus at the beginning of the period known and the net profit or loss for the period established, the Surplus at the end of the period can be found in the following manner:

Adjusted Surplus at Beginning of Period } Plus { Net Profit for the Period } Minus { Net Loss for the Period } Equals { Surplus at End of Period

From a study of the details of the Income and Profit & Loss Statement it will be realized that the completeness of the story told depends upon the extent of the accounts classification. The more minutely the Income and Expense items are analyzed in the corporation's ledgers the more detailed will be the information the statement contains. Therefore careful thought should be given to the establishing of a proper account classification.

The statements which follow illustrate the type of Income and Profit & Loss Statement prepared periodically as a guide to the financial operations and to the determination of the financial policy.

THE COLAIC MANUFACTURING CO., Inc.

BALANCE SHEET

AT DECEMBER 31, 1922

ASSETS			LIABILITIES & CAPITAL		
Current Assets			**Current Liabilities**		
Cash in Banks and on Hand		$30,000.00	Salaries and Wages Accrued		$11,000.00
Notes Receivable		3,000.00	Commissions Accrued to Salesmen		4,000.00
Accounts Receivable - Customers	$50,000.00		Notes Payable - Banks		16,000.00
Less Reserve for Bad Debts	2,500.00	47,500.00	Notes Payable - Vendors		3,100.00
Loans to Employees		1,500.00	Accounts Payable - Vendors		11,000.00
Total Current Assets		$91,000.00	Total Current Liabilities		$45,100.00
Working and Trading Assets			**Capital Liabilities**		
Working:			Mortgage Payable - on Real Estate		100,000.00
Raw Materials & Supplies - Inventory	47,000.00				
Goods in Process - Inventory	18,000.00	65,000.00			
Trading:					
Finished Goods - Inventory	54,000.00	119,000.00			
Total Working & Trading Assets					
Capital Assets			Capital Stock-Common-Authorized	100,000.00	
Land		68,000.00	Less Unissued	50,000.00	
Factory & Office Buildings	84,000.00		Issued and Outstanding		50,000.00
Building Equipment	16,000.00				
Machinery and Tools	40,000.00				
Power Plant	35,000.00				
Furniture & Fixtures	8,000.00				
	183,000.00				
Less Depreciation Reserves	9,200.00	173,800.00	Surplus		263,100.00
Total Capital Assets		241,800.00			
Deferred Debit Items					
Trading: Profit Applicable to Goods Finished Warehoused and Unsold		4,000.00			
Insurance Premiums - Unexpired		2,400.00			
Total Deferred Debit Items		6,400.00			
TOTAL ASSETS		$459,200.00	TOTAL LIABILITIES & CAPITAL		$459,200.00

Fig. 54b: Balance Sheet

THE COLNIC MANUFACTURING CO., INC.

Statement of Income and Profit & Loss for the year ended December, 1929.

Income from Sales		
Gross Sales		$800,000
Less Returns		4,000
Net Sales		796,000
Deductions from Sales		
Allowances to Customers - On Sales Price	$700	
On Damaged Goods	300	
Freight & Cartage Outward - On Sales	41,000	
Automobile Expenses - Applicable to Sales	9,000	
Total Deductions from Sales		51,000
Income from Sales		745,000
Cost of Goods Sold		
Manufacturing Cost of Goods Finished During the Period:		
Prime Cost:		
Materials and Supplies Consumed - Including Freight & Cartage thereon	300,000	
Productive labor	53,000	
Total Prime Cost	$353,000	
Manufacturing Overhead:		
Superintendence	8,000	
Unproductive labor	7,000	
Heat, Light & Power	4,000	
Factory Expense - Miscellaneous	7,000	
Repairs & Maintenance - Machinery & Tools	6,000	
Total Manufacturing Overhead	$32,000	
General Factory Overhead:		
Wages - Shipping Department	8,000	
Materials & Supplies Consumed	1,000	
Traveling Expense	300	
Miscellaneous Expense	500	
Total Gen. Factory Overhead	$ 9,800	
Total Manufacturing Cost for Period	$394,800	
Less Increase of Inventory of Goods in process as between Jan.1 & Dec.31,1929	2,000	
Manufacturing Cost of Goods Finished during period	$392,800	
Less Increase of Inventory of Finished goods as between Jan.1 & Dec.31,1929	3,200	
Manufacturing Cost of Goods Sold	$389,600	
Warehousing Raw Materials	5,000	
Total Cost of Goods Sold		$ 394,600
Gross Profit on Sales		$ 350,400

Fig. 54c: Income and Profit and Loss Statement

Selling Expense		
Salary - Sales Manager	$10,000	
Salaries & Commissions-Salesmen	68,000	
Traveling Expense	54,000	
Advertising-Trade Papers	18,000	
-General	4,000	
Free Goods & Premium	24,000	
Salesmen's Samples	7,600	
Miscellaneous	1,000	
Total Selling Expense		$ 186,600
Selling Profit		$163,800
Administrative & General Expense		
Administrative:		
Salaries	$18,000	
Heat & Light	1,000	
Telephone & Telegraph	325	
Traveling	800	
Postage	2,025	
Stationery & Printing	750	
Miscellaneous	2,100	
	$25,000	
General:		
Repairs & Maintenance of Office Buildings	$ 6,000	
Factory Charges to General Expense	4,000	
	$ 10,000	
Total Administrative & General Expense		$ 35,000
Profit from Operations		$ 128,800
Other Income		
Interest	$ 125	
Cash Discounts	4,500	
	$ 4,625	
Deductions from Income		
Interest	$ 15,000	
Cash Discounts - Taken by Customers	8,700	
Taxes, Licenses & Fees	4,300	
Bank Charges	1,325	
	$ 29,325	
Net Deductions from Income		$ 24,700
Gross Profit and Income from Operating and other Sources		$ 104,100
Extraordinary Loss for Period		
Uncollectible Accounts	$ 2,300	
Breakage of Containers	3,300	
Total Extraordinary Loss for Period		5,600
Net Profit for year ended Dec. 31,1929		$ 98,500

Fig. 54c—Continued

Reserved		
For Depreciation of Physical Assets	$ 9,200	
For Possible Uncollectible Accounts	2,500	
Total Reserved		$ 11,700
Profit & Loss Surplus at Dec.31,1929		$ 86,800
Surplus at January 1, 1929	$ 184,100	
Less adjustments during period Returned Sales of Prior Periods and Damaged Goods sold in Prior Periods, the profit on which is included in the Surplus established at January 1, 1929, including Freight, Cartage and all other expenses paid by the Company on such returns	7,800	
Net adjusted Surplus at Jan.1,1929		$ 176,300
Surplus at December 31, 1929		$ 263,100

Fig. 54c—Concluded

A comparative study of such statements of one period with another will clearly reflect the change of every factor in the organization indicating the sources of gain or loss and their respective fluctuations.

Comparisons of Profit and Loss for Different Periods

For the corporation executive the most practical method of securing accurate comparison of figures is to have the accounts so standardized that when the compared statements are placed in juxtaposition, the variation or similarity in the corresponding elements in each will be apparent at a glance. Comparisons should be made by weeks, months, and years.

The larger the number of yearly statements available to the executive for comparison, the greater will be the informative value in respect to the progress or retrogression of the company. The figures and the differences indicated by them should also be expressed in terms of percentages, as this manner of calculation has been found by experience to be the most easily understood and assimilated.

CHAPTER XXI

SURPLUS

Comparison of Net Worth in Partnership and Surplus of Corporation

As an approach to the study of "Surplus" account, an examination should be conducted of what constitutes the equivalent in the accounts of proprietary enterprises and this should be compared with "Surplus" account on the corporate books.

In a partnership (or sole proprietorship) the capital account after the books are closed represents the "net worth" of the owners. It is determined by taking the initial investment, adding thereto additional investments, deducting withdrawals and then adding or deducting the profit or loss as the case may be.

In a corporation the investments and profit or loss are segregated. The capital stock investments are found in the various capital stock accounts and the profit or loss is kept in a separate surplus or deficit account. In the case of the sole proprietorship or co-partnership the profit or loss is the result of an increase or decrease in the invested capital at the beginning of the fiscal period as shown by the capital accounts of the partners, after having taken into consideration any additions to or deductions from the initial capital invested.

In a corporation the surplus may arise not only from profits received through the regular course of business operations, but also at times may represent part of the capital invested (premiums on sale of stock) where par value stock is sold at a figure above the par set. The amount received in excess of the par figure is usually credited to a surplus account.

Means of Creating Corporate Surplus

What then, is Surplus? In summary it is the amount by which the assets of the company exceed the combined figure of its liabilities and capital stock. This excess or surplus, however, may be the result of profits on regular operations, the sale of stock at a premium, the increase of the book values of assets over cost, or it may be brought about through donations of rights, property, etc., to the

corporation. Surplus, therefore, may be broadly represented by any one of these individual items, or a combination of any or all of these factors.

The Surplus account of a corporation is in reality made up of items coming from two different sources. One is known as "Paid-in Surplus" and the other as "Earned Surplus." The latter, of course, represents the normal profits arising out of the regular operations of the business. "Paid-in Surplus," however, comes on the books in various ways:

SURPLUS EQUALS:

Net Worth — Capital Stock.

Assets — (Liabilities + Capital Stock).

NET WORTH EQUALS:

Capital Stock + Surplus

Assets — Liabilities.

ASSETS EQUAL:

Liabilities + Net Worth

Surplus may be defined as the excess of the Assets of a corporation over its Liabilities and Capital Stock.

Net Worth may be defined as the excess of Assets over Liabilities

Fig. 55: Chart of Equations Re: Surplus—Net Worth—Assets

1. Profits on sales of Treasury Stock acquired by the corporation.
2. Payments on stock subscription forfeited by the subscriber.
3. Any reductions of the Capital Stock account made through payment by the corporation at a price less than the par figure.
4. When the value of assets received for capital stock issued is obviously more than the total par value represented, and such values are subsequently increased on the books.
5. Additional assessments on par value stock.

6. Donations of property, rights, etc., made by stockholders or others.
7. Premium received on the sale of capital stock.

Capital Surplus and Earned Surplus

In setting up the "Surplus" account on the books of the corporation the correct accounting procedure would be to segregate these two different kinds of "Surplus" by designating one "Earned Surplus" and the other "Capital Surplus." Technically perhaps (and yet questionable and possibly illegal under certain conditions) the latter may be considered available for the declaration of dividends to stockholders. It seems advisable, however, to be able to determine at all times just how much of the surplus has been earned through the regular channels of operation, and how much actually was received from other sources. This sort of information is especially valuable in making comparisons of figures for managerial purposes, building up statistical records and analyzing the results of various business methods and procedures.

The "Earned Surplus" is charged with all distributions of dividends made from this account.

The "Paid-in" or "Capital Surplus" account receives its charges through any of the following:

1. Distribution through dividends (of amounts considered legal and proper).
2. The difference between the sale and purchase price of Treasury Stock where it is sold for less than the original amount paid when it was purchased.

In order to avoid repetition, the reader is referred to the previous chapters which indicate the various ways in which "Surplus" is affected, and the accounting treatment of Capital Stock and Treasury Stock transactions.

The most common form of surplus is "Earned Surplus." Miscellaneous credits which appear in this account are as follows:

1. The net profit for the fiscal period on the regular business operations.
2. Adjustments that increase the profits of a previous period.

The debits of the "Earned Surplus" account would comprise:

1. The net loss for the fiscal period on the regular business operations.
2. Adjustments that decrease the profits of a previous period.
3. Dividends declared.

Undivided Profits Account

Some corporations set up in addition to the account "Surplus" another account termed "Undivided Profits." This Undivided Profits account is, of course, part of the surplus derived from the normal business operations.

In certain businesses the term "Undivided Profits" has a special meaning or significance. In banks, for instance, the earnings are transferred to an "Undivided Profits" account, and dividends are paid only out of this account. Should any portion of "Undivided Profits," by order of the Board of Directors, be transferred to "Surplus" it becomes and remains a permanent part of the "Capital Surplus." No dividends are paid out of this account, therefore the "Surplus" in this respect represents additional or increased capital stock value.

The "Undivided Profits" account functions in several ways. Some corporations use the term to convey the same idea as that set forth by the regular "Surplus" account. Others use it as an intermediary account to which the net earnings are first carried and then later on make various transfers for specific amounts to the "Earned Surplus" account. There are also corporations which use the "Undivided Profits" account as a sort of temporary resting place for the undistributed profits of the last closing period, all the undivided profits of other periods having been previously transferred at their proper times to the "Earned Surplus" account.

Entries Affecting Surplus Account

Ordinarily, of course, the only credit or debit entry which affects the Surplus account comes about through the transfer of either the profit or the loss for the fiscal period. Any other entries are the result of adjustments of profits or losses which apply to the previous period. These adjustments should not be charged or credited to the operations of the current period. They are considered as adjustments of Surplus into which account the final result of the operations of the previous period have been closed. In fact it is good practice, where there are debit or credit adjustments resulting from the operations of the prior year, to create a special account on the books entitled "Adjustments of Prior Year's Operations." In this account would appear all income and expense items affecting the operations of any previous years. This account, if desired, may then be closed to Profit and Loss, but shown on the statement of profit and loss for the current year under the caption of "Profit and Loss Charges."

Capital Gain and Loss Account

It should be borne in mind that it is always good accounting to keep out of the regular Profit and Loss account the items of profit or loss that arise through transactions outside of the so-called regular or normal business operations. For instance the profit on the sale of a capital asset if transferred directly to Profit and Loss lessens the value of that account for true comparisons of operations of one period with another. All such items of an unusual character should be first set up in an account fully descriptive of the transaction, and then later transferred as a special profit for a particular year to Surplus.

The accountant must watch carefully to see that the Surplus account does not become a burying ground for all transactions of this type. That is why it is recommended that individual accounts with special captions be created which will clearly set forth the character and intention of the transaction.

In substantiation of this reasoning there can be created an account designated "Capital Gain and Loss." As an illustration of the use of this account a parcel of land is sold for $120,000, the cost of which was $100,000. The entry is as follows:

Cash	$120,000	
Land		$100,000
Capital Gain and Loss		20,000

The Capital Gain and Loss if desired may be transferred to the Capital Surplus account at the close of the period; or the account can be left intact showing the net result of all capital asset transactions. On the balance sheet the amount in this account would be combined with "Surplus."

Apportionment of Surplus Through Reserves

With an understanding of how Surplus comes into existence consideration should be given to the various ways in which it is apportioned. The first method of apportionment is to show it through "Reserves." These reserve accounts were originally intended as amounts which were set aside out of profits so as to insure at a future date the liquidation of certain liabilities and to safeguard the replacement of assets subject to depreciation or depletion.

This procedure of setting up reserves has for its purpose the withholding of portions of profit, thus making the full amount of profit unavailable for dividends. In this

way the corporation would be prevented from paying cash that would otherwise be needed for its business operations or future capital requirements. It should be mentioned, however, that reserves are not set up to provide merely for depreciation or depletion of property, but are also created for the purpose of protecting bondholders' loans, etc.

Operating and Non-Operating Reserves

Reserves are divided into two classes: (1) an operating and (2) a non-operating reserve.

The operating reserves are set up to provide for some expense to be incurred or future loss to be sustained, which expense or loss should be reflected on the books before the final or true net profit can be ascertained. This type of reserve reflects the reduction of the book value of some asset; the reduction of a fixed asset through depreciation or depletion, provision for bad debts, miscellaneous expenses, etc. Thus as the reserves are set up out of profits, the profits are correspondingly reduced and a portion of surplus is actually set aside for the purpose for which the reserve was intended. Other operating reserves are set up in order to insure the payment of accruing liabilities. Included in this class are reserves for taxes, royalties, etc.

The non-operating reserves are those created for specific purposes. Examples of these are future improvements, to protect sinking fund payments, etc. It will be noted that these reserves differ from those of Class No. 1 in that they do not actually indicate a reduction of profit, but rather are created to denote that profits have been set aside for purposes other than the declaration of dividends. When the liabilities for which these reserves were created have been paid, the reserves will then be closed and returned to the Surplus account.

Fund Accounts

The mere setting up of a reserve (or surplus) taken out of profits to serve as an added safeguard for the payment of the bonds or other obligations is not to be considered "all sufficient" in actually fulfilling the purpose of the reserve. The corporation is obliged also to provide a "fund" account as well as the "reserve" in order to protect the bondholders. The word "fund" in this sense represents an actual tangible asset, either cash, securities or other property, whereas the "reserve" is intended to convey the withholding of "book" profits. When the record is set up, an equal amount of cash is also set aside which is usually

deposited with a trustee. At a future date, the amount of cash (or other equivalent property) required for the specific purpose is, therefore, available.

Ultimate Return of Non Operating Reserves to Surplus

As a final distinction between these two classes of reserves, it is pointed out that the operating reserves ordinarily do not find their way back into profits, while on the other hand, the non-operating reserves are usually returned to profits (or surplus) when the purpose of the reserve has been fulfilled.

For instance, the periodic entry on bonds to run ten years for the purpose of protecting payments to the sinking fund would be as follows:

Surplus	$10,000	
Reserve for Sinking Fund		$10,000
To set up reserve on annual Sinking Fund. The cash for this fund was deposited with trustee on December 31, 1929.		

This entry is to be made for each period. Interest earned on the sinking fund is not considered in this illustration.

The sinking fund at the end of the tenth year, at which time the bonds are redeemed, would amount to $100,000. The entry to restore the full amount of the reserve to Surplus would then be made as follows:

Reserve for Sinking Fund	$100,000	
Surplus		$100,000
To close Sinking Fund Reserve to Surplus.		

This transfer will tend to increase the surplus considerably, which might result in the declaration of a special dividend—the so-called "cutting of a melon."

Inaccurate Entries Affecting Surplus

From the foregoing discussion it can be seen that surplus measures the increase or decrease in the net worth of a corporation. The capital stock representing the stockholders' original investment, which is the other factor in the calculation of net worth, remains unchanged.

Surplus represents the difference between the assets and the liabilities (plus capital stock) of the corporation. Therefore, every misstatement of income or omission of an asset or liability, immediately reflects a change in the surplus as shown, and causes it to be stated incorrectly by the amount of the error.

If the assets are overstated and the liabilities understated on a balance sheet, the true surplus will be less than the amount shown. Correspondingly, if the assets are understated and the liabilities overstated the true surplus will be more than the amount shown on the balance sheet.

Hidden Reserves

This type of reserve may be created in any one of the following ways:

1. Excessive writing down of the book value of an asset.
2. Charging additions and betterments to some expense account.
3. Writing off any asset which still exists and has value.
4. Overstating liabilities.
5. Setting up false liabilities.
6. Excessive provision for bad debts.
7. Omission of assets from accounts, either intentionally or inadvertently.

From the above enumeration, it can be seen that hidden reserves may be created either by honest intent or fraud. It is honestly created when the reserve comes into being through a sincere desire for conservation, and fraudulently when it is the desire to produce an understatement of profits or net worth. The fraudulent practice may be for the purpose of evading taxes, or to deceive stockholders as to the actual value of their holdings.

When the Surplus account is understated through the medium of hidden reserves for the purpose of conservation, little criticism can be directed against the procedure. The only objection to such procedure is that the stockholders and possible purchasers are unable to determine what the values of their holdings are at any time. This often leads stockholders to sell their holdings for less than the stock is really worth. This injustice to stockholders is considered slight as compared with the harm that might be done where a fictitious increase of surplus is created through the overstatement of the corporation's net worth.

The net effect of the policy of creating hidden reserves is the accumulation of undistributed profits. The balance sheet under such a condition undoubtedly will not have to be subjected to a possible reduction of the values shown, as is the tendency in most cases of those who study it.

Revaluation of Assets

The revaluation of assets gives rise to additional surplus. This increase, not actually earned or realized, cannot be considered as earned surplus available for dividends. There are various ways in which assets may be revalued—

1. The original cost.
2. What it would cost to repurchase or replace.
3. At original cost less depreciation to date.
4. Value that might be realized at forced sale.
5. The present market or present sales value.

Whatever increased values are placed upon the books for assets must conform to sound principles of accounting. Conservatism is generally to be favored in the matter of revaluing assets. There is never any question as to valuation when "cost" is used in a going concern, provided, of course, that adequate depreciation has been taken on the assets to cover wear and tear, and obsolescence.

This procedure would not hold true, however, whether for purposes of reorganization or for a going concern, where such assets as real estate, or securities, etc., had increased considerably in value over the original cost. The accountant would be grossly in error if he did not recognize the increase and arrange to show these assets at their true values. Examples of increases of assets might be reflected in real estate and securities purchased a long time ago. The present market values of these assets may show unusually large appreciations over cost which should be taken into account if a correct financial statement is to be prepared.

The accounting procedure in many instances resolves itself into a matter of judgment. What are the facts behind the figures? Are the values based upon appraisals? Are the assets which have been revalued tangibles or intangibles? What are the purposes relative to the desire to increase certain assets on the books? The answers to these questions and others that may be asked will enable the accountant who possesses experience and knowledge to pass judgment upon the increased values, as to whether they are sound or unsound.

Surplus on Balance Sheet

The final thought concerning Surplus, regardless of how it has come into existence, deals with the method of showing it on the balance sheet. This is the financial statement that the banker, stockholders and the general investing

public study with the view of learning the corporation's condition.

The net worth is made up of the surplus and the capital stock of the company. It is always desirable, therefore, that these figures be shown on the balance sheet in a manner that will clearly bring out the "Total Net Worth." Should there be a deficit, instead of a surplus, the deficit (not to appear on the asset side) should be shown as a deduction from the amount of capital stock issued and outstanding. The net worth under this plan will still be shown in one figure on the balance sheet.

On some balance sheets an analysis of surplus is made. An illustration of how this is usually done is shown in the accompanying chart (Fig. 56).

METHOD NO. 1

Surplus at January 1, 1928	$50,000.00
Less: Dividends declared June 30, 1928	10,000.00
Surplus after deducting dividends declared	40,000.00
Add: Profit for year ended December 31, 1928	25,000.00
Surplus at December 31, 1928	65,000.00

This shows analysis (in brief form) on Balance Sheet

METHOD NO. 2

Surplus at January 1, 1928		$150,000.00
Adjustments of prior year's operations:		
Addition—		
Refund on account of Taxes overpaid	$5,000.00	
Deduction—		
Accounts payable not entered on Books	1,500.00	
Net increase		3,500.00
Surplus (corrected) at January 1, 1928		153,500.00
Operations for year ended December 31, 1928:		
Capital Gain (on fixed Assets Sold)	7,200.00	
Net Profit on Regular Operations for period	28,800.00	
Total Additions to Surplus		36,000.00
Total Surplus Available for Appropriations		189,500.00
Appropriations of Surplus:		
Reserve for Sinking Fund	10,000.00	
Dividends Declared and Paid	25,000.00	
Total Appropriations		35,000.00
Surplus at December 31, 1928		$154,500.00

This shows Analysis (in greater detail)—Usually shown as Separate Schedule.

Fig. 56: Two Methods of Showing Surplus on Balance Sheet

Appropriations of surplus should also be shown on the balance sheet in the proper manner plainly indicated as "Appropriated Surplus," otherwise someone reading the figures may be misled. Reserves, which represent charges to either profits or surplus, should not in every case appear on the credit side of the balance sheet. As we remember, there are two classes of reserves—operating and non-operating. The former which measures losses of assets and bad debts should be deducted from the asset valuations. Operating reserves which result in setting up liabilities (in reality accruals) as reserve for taxes, etc., should be shown on the liability side of the balance sheet under their proper group.

Non-operating reserves represent appropriated surplus. These reserves are not available for dividends because they have been set aside for specific purposes and they constitute a part of net worth.

The following methods will indicate at a glance how reserves may be classified on the balance sheet:

A—OPERATING RESERVES—

Deductions from assets—shown on assets side.
Accruals—shown among liabilities under respective group to which the accrual applies.

B—NON-OPERATING RESERVES—

These are appropriations of surplus (not available for dividends) and represent a part of the "net worth."

CHAPTER XXII

DIVIDENDS

Definition of Dividends

A composite definition of dividends, made up from extracts of legal decisions, may be stated as follows:

"A dividend is that portion of the profits of a corporation from whatever source derived which the directors by proper resolution have ordered distributed by ratable division among its stockholders."

Until the dividend is declared, the stockholders have no direct claim to it. The title to the corporation's earnings rests in the corporation. From the moment of declaration, however, the portion of the earnings so appropriated no longer can be treated as a free asset of the corporation but in accordance with the law, it must be reserved for payment to the stockholder. It has been stated that "a dividend divides the property which belongs to the corporation into that which the corporation retains and that which the corporation agrees to pay to the stockholders, and which it is thereby bound to pay."

The court in a recent case stated: "The declaration of the dividend has the effect to segregate the earnings to the amount of the dividend, from the corporation's assets, or general mass of property, which is represented by the capital stock, and to appropriate the same to the then stockholders, who become entitled to recover the same of the corporation, as debtor, when the time for payment fixed by the resolution of declaration or by the law is reached."

Declaration by Board of Directors

The statutes of most states recognize the declaring of dividends as one of the important powers of the Board of Directors. The expressed authorization of the directors to declare dividends is covered by the provisions contained in the state laws or in the charter or by-laws of each corporation.

The statutes of practically every state embody specific provisions against the declaration of any dividends that will impair the capital of the corporation. With the exception of these provisions there is little else in the law that

interferes with the rights of the Board of Directors in the matter of declaring and distributing dividends. If any regulations are desired regarding a particular method of distribution of the corporation's surplus, these will have to be specifically covered in the charter or by-laws.

Examples of measures taken to protect stockholders are observed in cases where corporations set aside or appropriate certain amounts out of surplus or profit as special reserves before dividends are declared.

The resolution passed by the Board of Directors fixes the amount of the dividend to be paid, usually basing it on a fixed amount per share, or a certain percentage of the par value of the stock.

The directors must be very careful in declaring dividends to avoid the possibility of an illegal distribution. The source of dividends must be profits. Where there are no profits any declaration and distribution would be contrary to the law and might even result in criminal prosecution.

A stockholder who receives dividends that have been illegally declared can be compelled to make restitution.

In view of this, it has become the standard practice to make certain that any capital impairment resulting from losses sustained by a corporation during prior years of operation, has been first adjusted out of the profits before any dividends are distributed.

Definition of Capital

Writers in the field of economics, business, finance, law and accounting phrase their definitions of capital quite differently.

As interpreted by the classical economists, the definition of capital embraces the three fundamentals—labor, material goods and productiveness. The term so defined implies both the materials and the instruments of production. Economics is the science of wealth in the aggregate. Capital has been defined by a writer on economic subjects as "a fund of wealth used in the production of more wealth."

In the financial field capital may refer to the entire assets of the individual, partnership or corporation, used by him or it in the business, in which event it is called "gross capital;" or the term may imply the net fund remaining after all liabilities have been met, in which event it is designated "net capital."

According to this conception of gross capital the term includes all properties obtained by the business from whatsoever source derived and used in the conduct of the enterprise. This involves the original investment by the parties interested in the business, the assets secured by means of the reinvestment of earnings, material, supplies and equipment obtained from the merchant or the manufacturer by the use of the credit of the enterprise, as well as all assets purchased by moneys borrowed at the bank or by the issue of bonds or short term notes.

Net Capital

In the vernacular of the average business man, capital does not imply the total fund used by the firm in the enterprise but only that part which the proprietor or the partners have contributed.

For example take the case of an auto sales agency operated by a sole proprietor. Cars are purchased by him from the manufacturer under a so-called "floor plan" by which when a carload of automobiles arrives accompanied by a sight draft and freight bill, he pays ten per cent of the cost of those automobiles plus freight, and the auto finance company pays ninety per cent against his ninety day notes, which of course can be renewed, in the event that the cars are not sold, or taken up should the cars be sold prior to maturity. Similarly, when cars are sold on the installment plan, the finance company finances approximately 60% of the sales price, the purchaser paying the balance, or if the purchaser pays part cash and part notes, the agent immediately discounts the notes at the local bank. Under the circumstances described, as the proprietor views it, the term capital implies only that part of the total fund used in the enterprise which he has contributed; *viz.*, (1) the 10% plus freight which he pays down on the original purchase price of the cars, (2) his bank balance, and (3) the material, supplies, and equipment which he has on hand to care for his customer's cars, or (4) the total of parts and accessories he keeps in stock to sell to his clients. If he owns the property where he conducts his business, that is included, of course, but often the site is leased on a monthly rental. Capital as he views it, does not include the ninety per cent of the new car purchase price, nor such loans from banks or other sources as he may use in his business. Strictly speaking, however, the term capital as the proprietor uses it should be labeled "net capital."

Factors Upsetting Equivalence Between Capital and Issued Stock

The legal rules covering valuation of property exchanged for shares were the result of statutory provisions

regulating original issuance of par value shares. They relate to equivalence of value at the time of transfer, and in general courts have refused to consider what takes place thereafter. Immediately following the exchange, certain preliminary expenses are universally recognized as legally chargeable against the corporation, such as organization and development expenses. Since the result of a different disposition would be that the corporation would occupy the position of having a deficit before actually beginning to do business, it is considered sound accounting practice to charge such expenses temporarily to capital account and to write them off over a period of years. This orthodox treatment has given rise to the assertion by some authors that initial capitalization legitimately covers reasonable expenses of promotion and organization. The term capitalization is here used in the sense of financial plan. The amount of capital contributed by stockholders enters upon a process of change at the moment operations of the business begin, and this process continues until the existence of the corporation terminates. If there are net earnings, the excess over capital contributions by stockholders represents surplus, and consequently to figure the book value of each outstanding share, the total number of outstanding shares must be divided into the sum of the capital and surplus.

From the beginning of bookkeeping, the traditional method has been to keep the capital contributions distinct from the accretions of profit. Thus the proprietor, consistent with business procedure, could draw profits from the business without encroaching upon his capital. With the development of the modern business corporation other elements entered into the situation. What had been a rational bookkeeping arrangement for segregating classes of information for the guidance of the proprietor became a procedure essential to compliance with legal limitations, such as those respecting the payment of dividends.

The legal restrictions impressed by statutory provisions regulating par value shares upon the dealings with capital contributions of stockholders have emphasized the necessity of very careful accounting methods in order to avoid unwitting legal violations. The importance of establishing correct accounting procedures to provide that the capital fund shall not be impaired has inevitably influenced the corporation accountant's conception of capital as something that must be isolated from its accretions.

Stockholders' Rights to Dividends

Although the power to declare dividends is vested in the Board of Directors, in certain cases the courts will uphold the rights of the stockholders by forcing the directors to declare dividends, particularly where the corporation has built up a large surplus.

It is necessary, of course, that substantial evidence be offered in order to secure such relief from the court. The stockholders will have to show that there has been fraud or misappropriation of the corporate funds, or that there is a large surplus of excess profits, etc. The court otherwise is usually reluctant to interfere with the judgment of the directors.

Where a dividend has been actually declared, such a declaration places the stockholders on the same basis as that of ordinary trade or other creditors of the corporation. Any stockholder has the right to enforce payment of this indebtedness in the same manner as any other creditor.

It must be mentioned, however, that the mere declaration of the dividend by the board is not sufficient. The fact that the dividend has been declared must be made known publicly. Until this is done, the declaration of the dividend can be rescinded. Even after a dividend has been publicly declared there is also a possibility that it can be revoked, provided it can be proven that the dividend was declared while the directors were in ignorance as to the exact condition of the company's profits. The dividend can also be withdrawn if its declaration was illegal, or it may be enjoined by the suit of objecting stockholders on the ground that it was not in accordance with the law.

Forms of Dividends

Dividends are usually payable in cash. If the profits of the corporation, however, are in the form of property, the property can be sold and the proceeds used to satisfy the dividend declaration. If the surplus is in the form of property, the property may be used as security against which funds may be borrowed in order to pay the dividend. Stock, bonds or scrip can be issued against the property, and cash procured from the sale of these securities.

If, on the other hand, the directors do not wish to dispose of property or encumber it for payment of dividends, or if they wish to keep their cash intact for corporate needs, there are still other ways in which they may declare dividends:

(A) Increase the capital stock and distribute this in the form of a "stock dividend," or use treasury stock for the purpose.
(B) Bonds may be distributed to the stockholders in the amount of the dividends declared.
(C) Scrip may be issued to cover the dividend.

Care must be exercised in the declaration of stock dividends to make certain that the property against which the stock dividend is issued represents the full value for which the stock stands, otherwise the stock cannot be considered as "full-paid," and the stock dividend issue will take on the form of "watered stock."

Another situation to be considered occurs when a corporation purchases with its surplus earnings the stock of another corporation and then distributes this stock to its own stockholders. This procedure cannot be classed as a stock dividend, because it represents a "payment" of dividends in the form of securities.

There are certain objectionable features that attach to the distribution of bonds as dividends. While such a distribution is legal, when the bonds are issued against actual profits, notice must be taken of the fact that bonds usually carry interest. This interest must be later paid by the corporation whether or not any further profits are earned. The bond is also an obligation of the company. It is a definite and fixed liability that must be paid at maturity regardless of the corporation's financial condition.

Scrip (a form of promissory note) is usually issued when the corporation desires to declare a dividend to its stockholders, but wishes to reserve its available cash for the furtherance of certain corporate activities. The cash can be paid at a more convenient time in the future.

Scrip may be issued in several different forms. The payment date does not have to be absolutely determined. It may be made contingent upon the sale of certain specific property, or upon the occurrence of any other reasonable conditions that the corporation officials may set forth as being necessary.

Scrip may be issued in convertible form to be exchanged for either stock or bonds of the company. The scrip that has been issued, however, does not transfer the ownership of property to the stockholder.

Interesting questions sometimes arise as to whom the dividends are payable. The corporation is fully protected when the payment is made to the stockholder of record whose name appears on the stock books of the company. Responsibility for seeing that the proper registration is made of the stockholder's name on the company books rests with the purchaser of the stock. He, therefore, cannot hold the corporation liable for non-payment to him, if because of his failure to notify the corporation of the new ownership, his name does not appear on the stock books. The duly assigned certificate is sufficient evidence of ownership and justifies the treasurer of the corporation in paying the dividend to the holder, provided, of course, the assignment has been made prior to the date specified as the one on which the dividend is payable to stockholders of record.

Illegality of Dividends

What constitutes an illegal declaration of dividends may result from:

(A) Any declaration made which disregards the rights of the stockholders.
(B) Any declaration made in violation of any provisions of the charter or by-laws.
(C) Any declaration which impairs capital.

It is interesting to note the liability imposed by the statutes of certain states for any violation of the rules governing dividends. Some states hold the directors liable for the actual amount paid out as illegal dividends; others make them liable for any debts of the corporation incurred during their terms of office, and in some states the directors are subject to fine and imprisonment. Where the distribution of dividends impairs the capital stock or causes the corporation to become insolvent, not only does the law subject the directors to certain penalties, but it also may compel the stockholders to return any illegal dividends that they have received.

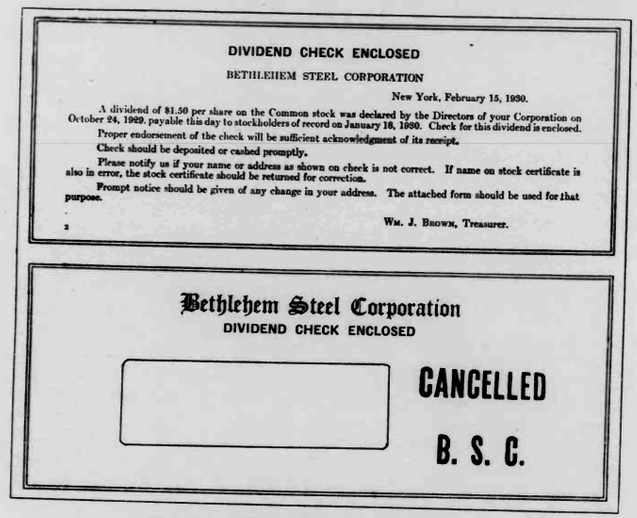
Dividend Payment Procedure

As discussed in the chapter on Stockholders' Meetings it is customary to declare dividends payable to stockholders of record on a certain date. In some instances, statutes or by-laws provide for the closing of transfer books for a prescribed period in advance of the payment date. Where the matter is left to the discretion of the management, corporations frequently do not close the transfer books but invariably specify that dividends are to be payable to stockholders of record of a specified date.

A system which has been found very efficient in respect to economy of time and effort has been devised by the Bethlehem Steel Corporation for handling dividend pay-

ments. A list of stockholders is arranged on stencils and is kept up to date by changing the stencils promptly whenever transfers of stock occur. An authentic list of stockholders of record is therefore always available in stencil form at the times when dividend disbursements are made.

The addressograph is used in imprinting the names of stockholders and the amount of the dividend on dividend checks and the checks are enclosed in perforated enclosure



DIVIDEND CHECK ENCLOSED

BETHLEHEM STEEL CORPORATION

New York, February 15, 1930.

A dividend of $1.50 per share on the Common stock was declared by the Directors of your Corporation on October 24, 1929, payable this day to stockholders of record on January 16, 1930. Check for this dividend is enclosed.

Proper endorsement of the check will be sufficient acknowledgment of its receipt.

Check should be deposited or cashed promptly.

Please notify us if your name or address as shown on check is not correct. If name on stock certificate is also in error, the stock certificate should be returned for correction.

Prompt notice should be given of any change in your address. The attached form should be used for that purpose.

2

WM. J. BROWN, Treasurer.

Bethlehem Steel Corporation

DIVIDEND CHECK ENCLOSED

CANCELLED

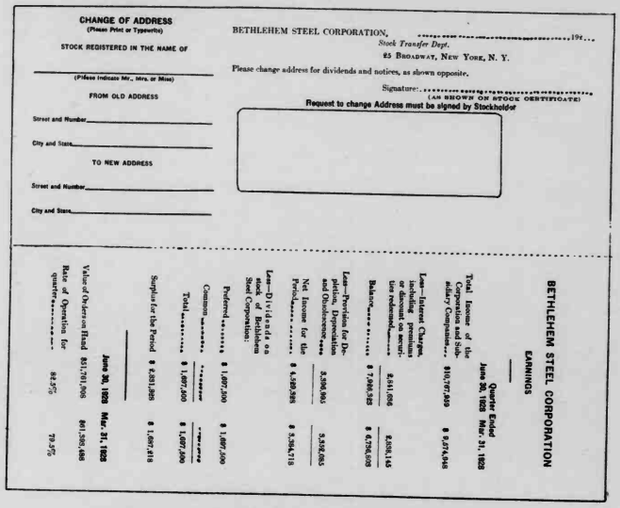
B. S. C.

Fig. 57: Dividend Enclosure Slip (face)

slips as shown in Figs. 57 and 58. In Fig. 57 is shown the outside of the slip as folded at the point of perforation in the center. One section of the slip is provided with a cutout which fits over the name of the stockholder as it appears on the check. Above the cutout appears the name of the corporation and the words "Dividend Check Enclosed." On the other section of the slip under the caption "Dividend Check Enclosed" are remarks respecting the dividend and instructions regarding the endorsement of the check and its deposit, and requesting notification as to changes when corrections of name or address are required.

On the reverse side of the slip as shown in Fig. 58 appears a statement of the earnings for the current and

preceding quarter, and on the other portion of the perforated slip is provided a space for information for change of address. When detached and filled out, this section is mailed to the company so that corrections can be made on the corporation's record. When instructions for change of address are received by the corporation a form shown in Fig. 59 is mailed to the stockholder. This form consists of a brief acknowledgment of receipt of instructions and



CHANGE OF ADDRESS
(Please Print or Typewrite)

STOCK REGISTERED IN THE NAME OF

(Please indicate Mr., Mrs. or Miss)

FROM OLD ADDRESS

Street and Number

City and State

TO NEW ADDRESS

Street and Number

City and State

BETHLEHEM STEEL CORPORATION,
Stock Transfer Dept.
25 BROADWAY, NEW YORK, N. Y.

Please change address for dividends and notices, as shown opposite.

Signature:
(AS SHOWN ON STOCK CERTIFICATE)

Request to change Address must be signed by Stockholder

BETHLEHEM STEEL CORPORATION

EARNINGS

	Quarter Ended June 30, 1929	Mar. 31, 1929
Total Income of the Corporation and Subsidiary Companies	$10,197,849	$ 9,274,946
Less—Interest Charges, including premium or discount on securities redeemed	2,941,056	2,938,145
Balance	$ 7,256,793	$ 6,336,801
Less—Provision for Depletion, Depreciation and Obsolescence	2,396,983	2,332,085
Net Income for the Period	$ 4,859,809	$ 3,964,715
Less—Dividends on stock of Bethlehem Steel Corporation		
Preferred	$ 1,097,500	$ 1,097,500
Common		
Total	$ 1,097,500	$ 1,097,500
Surplus for the Period	$ 3,831,309	$ 1,097,215
	June 30, 1929	Mar. 31, 1929
Value of Ore Iron Fluxed	851,761,705	891,305,480
Rate of Operation for quarter	82.5%	73.5%

Fig. 58: Dividend Enclosure Slip (reverse)

recites the fact that change of address has been made as shown on the slip. When the change is made in the stencil, the imprint is made within the space encircled for that purpose on the slip and the forms enclosed in a window envelope and mailed to the stockholder.

Unless instructions are given to the contrary, dividends are paid to registered stockholders as their names appear on the stock records. In case the stockholder wishes to have a different disposition made of dividends he fills out the dividend order form shown in Fig. 60. On the face of this form is printed the order on the corporation to make checks for all dividends due on stock standing in the name of the stockholder who signs the order, payable to the order

BETHLEHEM STEEL CORPORATION
STOCK TRANSFER OFFICE
25 BROADWAY, NEW YORK, N. Y.

In accordance with instructions received we have recorded your change of address on the books of this Corporation to read as shown below.

Yours very truly,
WM. J. BROWN,
Asst. Sec'y and Asst. Treas.

5-10m-6.29-B.S.Co.

Fig. 59: Acknowledgment of Instructions To Change Address

of the person designated in the order. On the reverse side of the slip is a form of acknowledgment before a notary public which must be executed as a requirement for recognition of the order by the corporation.

When the dividend order properly executed has been received, the corporation mails an acknowledgment, consisting of a statement that in accordance with the instructions received the records of the corporation now show that dividends on stock to which the stockholder is entitled will be paid and mailed to the dividend payee whose name and

DIVIDEND ORDER

To the Treasurer of the
BETHLEHEM STEEL CORPORATION
25 BROADWAY, NEW YORK, N. Y.

_____ 192__

Until this order shall be revoked, in writing, by the undersigned as stockholder of your Corporation, checks for all dividends payable on stock now or hereafter standing in the name of the undersigned should be made payable to the order of and mailed to

PLEASE PRINT OR TYPEWRITE

Name _____
(Please indicate Mr., Mrs. or Miss)

Street and No. _____

City _____ State _____

Signature _____
Signature must correspond with name of stockholder on stock certificate

Stockholder's signature must be acknowledged before a Notary Public in the appropriate form on the reverse hereof.

4-10m-8.26-B.S.Co.

Fig. 60: Dividend Order Form

address are shown on the slip below. A space is left for the imprint of the dividend payee's name as it appears on the stencil and the acknowledgment is enclosed in a window envelope and mailed to the stockholder who executed the dividend order.

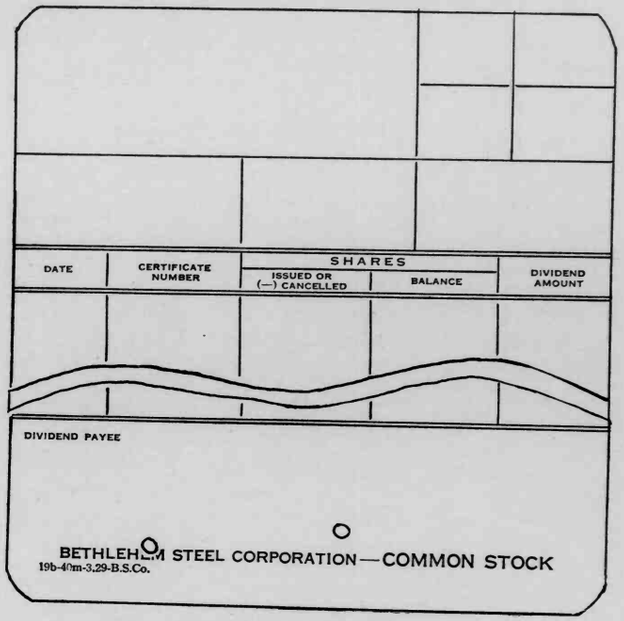


Fig. 61: Stock Record Card

In the stock record card shown in Fig. 61 the name of the stockholder appears in the larger space at the top and in addition to space provided for "date," "certificate number," "shares issued or cancelled" and "balance," there is provided a space for dividend amount. Also at the bottom of the chart there is a space provided for the name of the dividend payee which is filled in when the dividend order is received duly executed by the stockholder.

When the dividend checks are returned by the bank they are sorted numerically, checked against the dividend list and filed. Because of absence or neglect on the part of

stockholders, dividend checks are sometimes not cashed until a considerable period of time has elapsed. It is customary to follow up the stockholder in such cases and endeavor to eliminate such uncompleted transactions.

Various Methods of Recording Dividends

There are several ways in which the ordinary cash dividend may be shown on the books of the corporation.

Illustrations of the different methods of accounting procedure follow:

The Harris-Holmes Furniture Manufacturing Co., Inc. has earned a profit for the year 1929 of $76,284.57. The board of directors has declared a dividend of four per cent on the outstanding stock. Let us further assume that 3,000 shares of the company's stock are issued and outstanding, having a par value of $100 a share. The dividend declared amounts to $12,000.

December 31, 1929.

METHOD NO. 1

Profit & Loss	$76,284.57	
Surplus		$76,284.57
To transfer the profit for the year 1929 to Surplus.		

January 31, 1930

Dividends Declared	$12,000.00	
Dividends Payable		$12,000.00
To record the declaration of a 4% dividend on the outstanding stock ($300,000) of the company to stockholders of record as of February 15, 1930, payable February 28, 1930.		

February 28, 1930

Dividends Payable	$12,000.00	
Cash		$12,000.00
To record the payment of the dividend declared on January 31, 1930, due and payable as of this date.		

February 28, 1930

Surplus	$12,000.00	
Dividends Declared		$12,000.00
To transfer to Surplus dividend declared on January 31, 1930 and paid on February 28, 1930.		

It will be noted that Method No. 1 first transfers the profit for the year to the Surplus account, and then records the declaration of the dividend, setting up a specific liability for its payment at a future date.

METHOD NO. 2

January 31, 1930

Profit & Loss	$76,284.57	
Dividends Payable		$12,000.00
Surplus		64,284.57
Dividend of 4% on the outstanding Capital Stock $300,000 of this corporation has this day been declared to stockholders of record as of February 15, 1930 and is due and payable on February 28, 1930. The remaining profit is transferred to surplus.		

February 28, 1930

Dividends Payable	$12,000.00	
Cash		$12,000.00
To record the payment of dividend declared on January 31, 1930 due and payable as of this date.		

Method No. 2 subdivides the profit by setting up a liability for the amount of the dividend, and then transferring the balance of the profit to the Surplus account.

METHOD NO. 3

December 31, 1929

Profit & Loss	$76,284.57	
Surplus		$76,284.57
To transfer the profit for the year 1929 to the Surplus account.		

February 28, 1930

Surplus	$12,000.00	
Cash		$12,000.00
To record payment of dividend declared on January 31, 1930 and payable as of this date.		

Method No. 3 disregards the setting up of a liability account for the amount of the dividend and charges Surplus directly when the cash is paid.

Scrip Dividends

As a further consideration, let us assume that the dividend shown was paid in scrip instead of cash. In this case any one of the three methods illustrated could be used. The only change in the entries is that instead of crediting "Cash," the account entitled "Dividend Scrip Payable"

would be credited. As previously discussed, scrip is a promissory note of the corporation payable at some future date. By using the same method to record the dividend declared as illustrated in the former journal entries, the last step is to make the final entry necessary to close the dividend liability which would include the amount of "interest."

August 28, 1930

Dividend Scrip Payable	$12,000.00	
Interest	360.00	
Cash		$12,360.00

To record the payment of the scrip dividend issued February 28, 1930 for six months bearing interest at the rate of 6% per annum.

Dividends as Offset of Stockholders' Indebtedness

It may be mentioned here that immediately upon the declaration of the dividend by the Board of Directors it becomes a direct liability of the company. Any stockholder who is indebted to the corporation may offset the amount he owes to the extent of the amount of the dividend to which he is entitled. This procedure merely involves the making of a contra entry with proper explanation, and obtaining an acknowledgment of the receipt of the dividend by the stockholder.

Cumulative Stock Dividends

The question sometimes arises as to the proper method of handling dividends on Cumulative Preferred Stock when the dividends are "passed." These dividends in reality do not become a liability of the corporation until they have actually been declared. It is not good accounting, therefore, to enter such dividends on the books of the corporation when they are "passed." If the company desires, however, that the entry be shown, the accounting record can be made as follows:

January 31, 1930

Surplus	$6,000.00	
Preferred Dividend Unpaid		$6,000.00

To record 6% dividend on cumulative preferred stock of $100,000 not as yet declared, but required to be shown on the books of the company by the Board of Directors.

An objection to this method is that it might have the effect of producing a debit balance in the Surplus account,

should the preferred dividend be greater than the credit balance in the Surplus account.

In order to overcome this, some authorities suggest that an account in the nature of a deferred asset be set up to serve as an offset to the contingent liability account termed "Preferred Dividend Unpaid." This entry can be made as follows:

January 31, 1930

Preferred Stock Dividend	$6,000.00	
Preferred Dividend Unpaid		$6,000.00

To record 6% annual dividend on cumulative preferred stock of $100,000 not as yet declared, but required to be shown on the books of the company by the Board of Directors.

Should the corporation desire to pay its dividend in its own stock, any of the methods previously shown (Nos. 1, 2 or 3) may be used. The credit, of course, would be to "Capital Stock" instead of to "Cash."

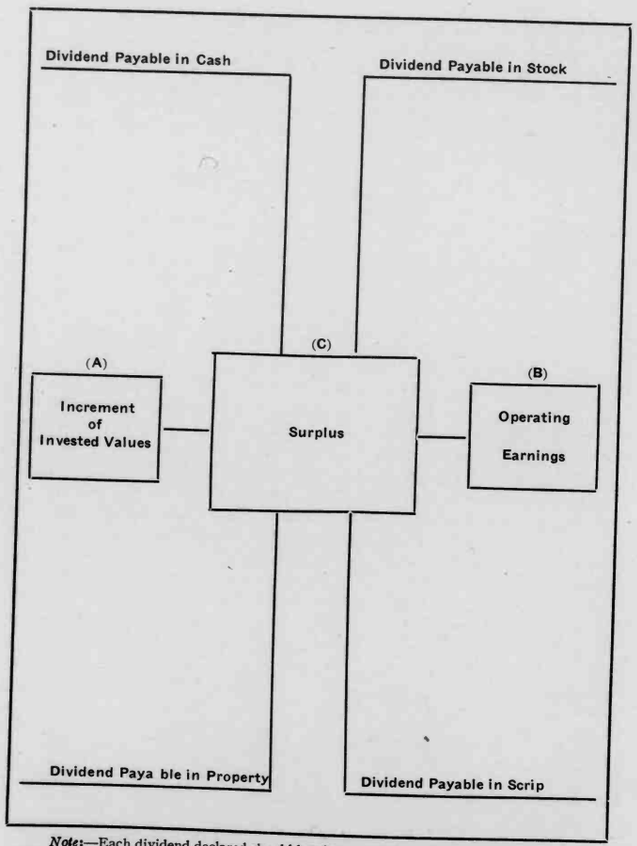
The same procedure holds true where the dividend is paid in the form of bonds; the respective bond account would be credited instead of Cash.

It is assumed of course that if the bonds or stocks are those which have been issued by the corporation, their distribution of such securities as dividends will be at par. If, however, the securities distributed are securities issued by other corporations, the distribution of such investments will be at the value recorded on the books.

It should be carefully noted that dividends are not available where they are declared on the basis of any unrealized appreciation of assets. While it is true that property may show a legitimate increase in value, any such increase, however, cannot be looked upon as certain of realization. In most cases it is the result of an appraisal and, of course, is liable to fluctuation. Only when the sale is consummated and the price paid, is the profit actually realized.

The question is often asked whether or not dividends can be paid out of the profits of the current year, if losses have been sustained (impairing capital) during previous years. Authorities differ in this matter, some holding that the losses of previous years do not affect the profits of the current year. Others claim that dividends can only be paid from Surplus.

There are many court decisions that favor both views. A study of these decisions by the American courts would indicate that the weight of authority lies with the declara-



Note:—Each dividend declared should be given a number—Number One Declaration, etc. A separate series of numbers should be assigned according to the different classes of stock.

Unpaid portions of dividends must remain as a liability of the corporation until all claims may be deemed not existent or outlawed. These dividends unclaimed can only be returned to surplus by proper decision of directors at board meeting.

(A) Have the increments been actually realized? Are they available for the payment of dividends?

(B) Can the payment of the dividend be met at the date fixed? Will it be available in cash?

(C) Surplus should be segregated on the books of the corporation as between "operating earnings" and "increment of invested values."

Fig. 62: Surplus and Dividend Chart

tion of dividends only when the company shows a surplus. It is unquestionably correct from both a managerial and accounting standpoint not to declare dividends unless the company shows a surplus. Dividends should be paid out of Surplus and not form so-called "profits" of a particular year or shorter period.

Distribution of Property Dividends

Investments in the form of securities, or any other kind of personal property, and in certain cases even real property which the corporation owns, may be prorated among the stockholders and distributed as dividends. The distribution of investment securities may be looked upon as in effect a payment in cash. This is based upon the assumption that the securities, if marketable, can be sold and the cash paid subsequently to the stockholders.

CHAPTER XXIII

TRANSFER FROM PROPRIETARY TO CORPORATE OWNERSHIP

A great many corporations are outgrowths of the sole proprietor or partnership form of organization. It seems to be a logical step from the proprietary type of ownership to the corporate, and the reasons therefor are not difficult to ascertain.

A few individuals, let us assume, associate themselves in business in a small way. Their operations, carried on in this limited manner, prove to be successful. The partners recognize the opportunities for the development of a large and profitable industry through expansion of the business, either in the volume of commodities handled or the territory to be covered.

Such an expansion usually requires the investment of an additional amount of capital. It may be possible that the partners are not in a position to make this needed investment.

Obviously there is but one thing to be done if they are to carry out their project of expansion and that is to turn to outside interests in order to procure the necessary financing.

There is, nevertheless, an important objection to obtaining additional funds from investors in the business in its present form. The admission of others into the partnership will give them an equal right in the formation of the business policies. It will also enable these investors to transact business in the firm name with authority to bind the firm equal to that possessed by its founders.

The original parties may feel, because of their initial efforts in establishing the business, that they should be entitled to exercise full control and to dictate its policies. They would be willing, however, to allow to the new contributors a satisfactory return on their investment.

As discussed in Chapter II the legal characteristics of the partnership are such as to render an expansion by admittance of additional partners inadequate for the purposes of the original associates.

Reasons for Changing to Corporate Form

If the partnership were changed to the corporate form of organization, the original parties at interest could ar-

range to hold the majority of voting shares issued and thus retain the management and shape the policy of the corporation. The necessary capital could be procured by distribution of shares without jeopardizing control, and the transition would bring about certain other advantageous conditions, such as limited liability of shareholders as described in Chapter II, which features would favorably influence investors in the corporation's securities. It is, therefore, much easier to finance a corporate than a partnership enterprise.

A great many individuals transacting business as partners are perfectly willing to assume full liability while the business operations are limited. As the business expands, however, and the dealings with other business entities and persons reach voluminous proportions, there is a natural desire to avoid any extraordinarily large liability.

At the outset, also, the partners may not be greatly disturbed by the fact that the partnership may be suddenly dissolved by the death of a partner. But as the business grows to one of considerable magnitude, the serious consequences of sudden dissolution to the interest of the surviving partner must be anticipated and provided against. These comments and the discussion in Chapter II explain the reasons for the general trend of transition from the partnership to the corporate form.

Change From Single Proprietor to Close Corporation

What has been said of the reasons influencing the change from partnership to the corporate form of organization applies equally to the change from single proprietorship to the corporation. The advantages of limited liability, greater facility in securing capital, and continuance of management uninterrupted by death of the owner, are powerful stimulators of incorporation. In the majority of instances undoubtedly all of the advantages have a bearing, but in some cases it is not so much a matter of securing funds for expansion as of securing the benefits of limited liability. This is particularly true of cases where the sole owner wishes to keep all of the stock except the few shares which may be necessary to qualify the directors. Under such circumstances the qualifying shares are usually held by members of the proprietor's immediate family.

A discussion of the accounting procedure incident to the change from a single proprietorship to a corporation will be found in Chapter XIX where it is exemplified in the course of the presentation of the accounting treatment of good will.

The accounting entries involved in order to effect the transfer of a business of a single proprietorship to that of a corporation does not differ greatly from that of a partnership business which incorporates. In one instance the sole proprietor will receive all the stock of the corporation (except probably a small portion issued to others in order to facilitate the corporate organization and management) and in the other case the partners will receive the stock of the corporation which will be usually distributed in proportion to their capital accounts and the sharing of profits.

Accounting Procedure in Change from Partnership to Corporation

The accounting procedure must show the transfer of the business from the old form of organization to the new. The assets and liabilities are transferred by the partnership to the corporation. The partnership enterprise receives in exchange for the net value of the enterprise a certain number of shares of the capital stock of the corporation which are usually divided between the partners in accordance with their capital investment accounts.

The following entries will illustrate the accounting records to be made on the partnership books:

(1) Good will (Dr.)
  A-Capital (Cr.)
  B-Capital (Cr.)

This entry is to be made to place the asset Good Will on the books in case the stock received by the partners exceeds the book value of the net assets transferred to the corporation.

(2) Vendee (Dr.)
  Liabilities (Dr.)
  Reserves (Dr.)
    Assets (Cr.)

This entry is to list the various assets, reserves and liabilities transferred, which closes these accounts on the books and charges the Vendee therefor.

(3) Capital stock of the Vendee Co. (Dr.)
    Vendee (Cr.)

This entry is to record the receipt of the stock of the corporation to whom the partnership net assets have been sold.

(4) A—Capital (Dr.)
  B—Capital (Dr.)
    Capital stock of the Vendee Co. (Cr.)

This entry is to record the distribution of the stock to the partners.

The entries that will appear on the corporation's books follow:

(1) Capital Stock Unissued (Dr.)
    Capital Stock Authorized (Cr.)

To record the authorized capital of the vendee corporation.

(2) Subscribers to Capital Stock (Dr.)
    Subscriptions to Capital Stock (Cr.)

To record initial subscription as required by law.

(3) Cash (Dr.)
    Subscribers to Capital Stock (Cr.)

For cash received from subscribers to capital stock.

(4) Subscriptions to Capital Stock (Dr.)
    Capital Stock Unissued (Cr.)

To record issuance of stock to initial subscribers.

(5) Assets (Dr.)
  Liabilities (Cr.)
  Reserves (Cr.)
  Vendors-A and B (Cr.)

This entry is to list the various assets, liabilities and reserves taken over, and to credit vendors (partners) with sale price.

(6) Vendors-A and B (Dr.)
    Capital Stock Unissued (Cr.)

To record the issuance of stock in settlement of the purchase of the net assets of the partnership.

As a concluding step in the consideration of the accounting procedures involved, a hypothetical problem is used:

The Brown Manufacturing Co. was organized on January 2, 1929 under the laws of the State of New York, for the purpose of taking over the business of Brown Bros., a co-partnership. The Corporation is organized with an authorized capital stock of $750,000 consisting of 7,500 shares of common stock of a par value of $100 per share. The incorporators subscribed and paid for 30 shares of the company's stock. Organization expenses of $250 were paid.

On January 15, 1929 the corporation took over the business of Brown Bros. (co-partnership) paying therefor $350,000. The assets and liabilities acquired were represented by the following:

STATEMENT OF PARTNERSHIP.

ASSETS		
Land and Building	$250,000	
Accounts Receivable	120,000	
Patents	20,000	
Notes Receivable	30,000	
Furniture & Fixtures	10,000	
Machinery & Tools	75,000	
Total Assets		$505,000
LIABILITIES AND RESERVE		
Bond & Mortgage Payable	50,000	
Notes Payable	5,000	
Accounts Payable	70,000	
Reserve for Depreciation of Plant & Equipment	75,000	
Salaries & Wages Accrued	2,000	
Total Liabilities & Reserve		202,000
CAPITAL OF PARTNERS		$303,000
The Capital Accounts of the partners were divided as follows:		
A. Brown		$130,000
G. Brown		173,000
Total Capital (as above shown)		$303,000

The appropriate entries to record the change and the transfer of assets and liabilities from the partnership are shown in the charts Figs. 63 and 63a, the balance sheet of the corporation being presented in Fig. 63a. The records reveal that although the operations of the business have continued undisturbed under the same management, a new business entity, the corporation, has been created. It will be observed that the books of the partnership have been closed and the corporate books opened, to signify that a change in organization structure has taken place. A final point to be considered is that in case the corporation does not desire to show "good will" on the books, it may appraise the assets and increase the amount of assets acquired by the corporation by the amount of excess so produced.

CORPORATE BOOKS	PARTNERSHIP BOOKS
January 2, 1929 Capital Stock Authorized .....$750,000 Capital Stock Unissued ..$750,000 The Brown Manufacturing Co. was incorporated this day under the laws of the State of New York with an authorized capital of 7,500 shares of common stock at a par value of $100.	No Entry
January 2, 1929 Subscribers to Capital Stock $3,000 Subscriptions to Capital Stock .. $3,000 To record subscriptions to capital stock as follows: A—Brown 14 shares B—Brown 14 shares C—Whiteman 2 shares	No Entry
January 5, 1929 Cash ..... $3,000 Subscribers to Capital Stock ..... $3,000 To record payment received from subscribers for capital stock.	No Entry
January 5, 1929 Subscriptions to Capital Stock $3,000 Capital Stock Unissued ..... $3,000 To record issuance of capital stock to original subscribers.	No Entry
January 5, 1929 Organization Expense ..... $250 Cash ..... $250 To record payment of expenses of organization.	No Entry

Fig. 63: Chart of Partnership and Corporation Entries

CORPORATE BOOKS	PARTNERSHIP BOOKS
No Entry	January 15, 1929 Goodwill—$47,000 A. Brown, Capital ....$23,500 G. Brown, Capital ....$23,500 To record the goodwill on the books (divided in accordance with agreement to share profits equally)
January 15, 1929 Land & Buildings ..$250,000 Accounts Receivable 120,000 Patents ..... 20,000 Notes Receivable .. 30,000 Furniture & Fixtures 10,000 Machinery & Tools. 75,000 Goodwill ..... 47,000 Brown Bros.....$552,000 To record on books the assets purchased this day from Brown Bros. etc.	January 15, 1929 The Brown Manufacturing Co. Inc.— $552,000 Land & Buildings ....$250,000 Accounts Receivable .. 120,000 Patents ..... 20,000 Notes Receivable .... 30,000 Furniture & Fixtures 10,000 Machinery & Tools .. 75,000 Goodwill ..... 47,000 To record sale of assets of this company to Brown Manufacturing Co., Inc.
January 15, 1929 Brown Bros.—$202,000 Bond & Mortgage Payable .....$50,000 Notes Payable ..... 5,000 Accounts Payable .... 70,000 Reserve for Depreciation of Plant & Equipment ..... 75,000 Salaries & Wages Accrued ..... 2,000 To record liabilities and Reserve taken over from Brown Bros.	January 15, 1929 Bond & Mortgage Payable .....$50,000 Notes Payable ..... 5,000 Accounts Payable .. 70,000 Reserve for Depreciation of Plant & Equipment ..... 75,000 Salaries & Wages Accrued ..... 2,000 The Brown Manufacturing Co., Inc..$202,000 To record liabilities and reserve assumed by the Brown Manufacturing Co., Inc.
January 15, 1929 Brown Bros.—$350,000 Capital Stock Unissued .....$350,000 To record payment made to Brown Bros. for net assets received from copartnership business.	January 15, 1929 Capital Stock of Vendee ..... $350,000 The Brown Manufacturing Co., Inc. ..$350,000 To record 3,500 shares of capital stock of the Brown Manufacturing Co. received for price of net assets sold to corporation.

Fig. 63:—Continued

CORPORATE BOOKS	PARTNERSHIP BOOKS		
	A. Brown Capital $153,500		
	G. Brown Capital $196,500		
	Capital Stock of Vendee $350,000		
	For distribution between partners of the stock of the Brown Manufacturing Co.		
	A. Brown Capital $130,000		
	Add Profit		
No entry	(Goodwill)	23,500	$153,500
	G. Brown Capital $173,000		
	Add Profit		
	(Goodwill)	23,500	196,500
	Total Stock Issued to Partners $350,000		

Fig. 63:—Concluded

THE BROWN MANUFACTURING CO., INC.

GENERAL BALANCE SHEET

at January 15, 1929

ASSETS

Current Assets		
Cash	$ 2,750.00	
Notes Receivable	30,000.00	
Accounts Receivable	120,000.00	
Total Current Assets		$152,750.00
Fixed Assets		
Land & Buildings	250,000.00	
Machinery & Tools	75,000.00	
Furniture & Fixtures	10,000.00	
Total Fixed Assets		335,000.00
Patents		20,000.00
Goodwill		47,000.00
Deferred Charge to Income		
Organization Expense		250.00
TOTAL ASSETS		$555,000.00

LIABILITIES & CAPITAL

Current Liabilities		
Salaries & Wages Accrued	2,000.00	
Notes Payable	5,000.00	
Accounts Payable	70,000.00	
Total Current Liabilities		77,000.00
Bond & Mortgage Payable		50,000.00
Reserve for Depreciation of Plant & Equipment		75,000.00
Capital Stock Authorized	750,000.00	
Less—Unissued	397,000.00	
Issued and Outstanding		353,000.00
TOTAL LIABILITIES & CAPITAL		$555,000.00

Fig. 63a: Balance Sheet of Corporation, After Taking Over Assets of Partnership

CHAPTER XXIV

BUDGETS

Definition

The budget has been called the most important aid to management, and it is undoubtedly an indispensable factor in the administration of modern business. It has been defined as: "A system of limitation of the expenses of a department or business, by means of the establishment of standards of accomplishment for a future period based on past records."

The budget is a carefully constructed plan made after taking into consideration previous experiences and all the contingencies that might arise during the term of the budget which might disturb the operation of the plan. It supplies a means of executive control over all departments of the business. It substitutes a planned program for a haphazard scheme of operation. With the aid of economic forecasting, it enables the chief authority of the business to visualize its future position with surprising accuracy.

Operation of the Budget

Budgeting may be applied to various segregated factors of business activity, such as income, expense, selling cost, manufacturing cost, etc.; but the term "budget" is generally accepted to mean in business the plan for the operation of the entire business during the ensuing term.

A budget to be successful must be prepared with careful consideration as to which phase of the business cycle the ensuing term comprises. It must be based on previous experience over a period of years when conditions were as nearly like those to be encountered in the ensuing period as possible. The executives responsible therefor must carefully estimate the Income, Expenses, Additions and Betterments under the above circumstances.

The various estimates are usually submitted to the controller who prepares a Provisional Estimate, being careful to see that the estimated expenses are sufficiently below estimated income to allow the usual operating profit. If the total expenditures planned exceed estimated income, he must see that additional cash needed will be available from surplus or new financing.

EXPENSE DISTRIBUTION REPORT

		MONTH			YEAR TO DATE		
		AMOUNT	% OF BUDGET		AMOUNT	% OF BUDGET	% OF TOTAL
80 A	Management						
B	P. & S. Dept.						
C	Receive & Deliver Dept.						
	Securities Dept.						
	Loan Dept.						
D	Take-off & Stock Rec. Dept.						
E	Dividend Dept.						
F	Transfer Dept.						
G	Tabulating Machine Dept.						
H	Runners & Boys						
				DISTRIBUTION			
81 A	Management						
B	Private Accounts			1139 Dept. 2			
	Genl. & Control Accts.			Banking Dept. 3			
C	Budget & Expense Accounts			Investment Sales Dept. 4			
D	Syndicate Accounts			Wholesale Dept. 5			
	Audit & Emergency Dept.			Commission Dept. 6			
E	Foreign Accounts			Trading Dept. 7			
				Foreign Dept. 8			
82 A	Management			Stock Exchanges 9			
B	Customers Accounts Dept.						
C	Files & Address Dept.			TOTAL OPERATING DEPTS.			
D	Mail Dept.			Akron 30			
E	Telephone Dept.			Albany 32			
F	Brooklyn Vault			Cleveland 34			
				Detroit 36			
83 A	Order Dept.			Hartford 20			
B	Wires			Indianapolis 38			
				Newark 43			
84 A	Margin Dept.			New Britain 22			
B	Credits Dept.			New Haven 24			
				New Haven (Univ. Br.) 26			
85 A	Purchase & Supply			Philadelphia 40			
B	Police & Cleaning			Reading 42			
C	Personnel & Miscel.			St. Regis 44			
				TOTAL BRANCHES			
				Administration 70			
				Service Depts.			
				A's Depts. 80			
				P's Depts. 81			
				M's Depts. 82			
				S's Depts. 83			
				W's Depts. 84			
				Miscel. Group 85			
				Statistical Dept. 86			
				87			
				Unusual Expense 89			
				TOTAL ADMINISTRATION & SERVICE (Total Cost of Administration & Service must be distributed to the money making departments.)			
				GRAND TOTAL			

Fig. 64: Budget of Large Brokerage House

The Provisional Estimate is then ready to submit to the Board of Directors or Executive Committee and upon approval it becomes the Budget for the ensuing period.

A Budget for the Fiscal Year

Most companies operating under a budget plan make the period covered by the budget coincide with their fiscal year. They start the preparation of the Provisional Estimate at the beginning of the last quarter of the current year, comparing nine months' actual Receipts and Expenditures, plus estimated Receipts and Expenditures for the last quarter, with what is estimated for the ensuing year.

A well-known brokerage house, a member of the New York Stock Exchange, operating many branches, finds it advisable to operate under a budget system pursuant to which each branch is required during the last quarter of the year to submit an estimate of its Receipts and Expenses for the ensuing year. For purposes of comparison the Receipts and Expenses for the current year (part of which, of course, are estimated) are shown. Income must be divided among the following five principal classes:

1. Commissions
2. Profit in Interest
3. Profit in Trading
4. Profit in Bank Stock Trading
5. Profit in Investments

Likewise the Expenses must be apportioned among their respective classifications numbering twenty-six in all. (See Fig. 64.)

Each department head is also required to prepare an estimate for his department divided among the standard classifications of operations under his control.

After the budget data received from the branches has been carefully scrutinized, their estimates are combined with those of the department heads and submitted to the partners for approval.

Monthly each branch is required to report its Income and Expenses for the month and show the percentage of each item to that estimated for the same month, contained in the approved Budget. Similarly it must show the cumulative amount for the "year to date" for each item and the percentage of that item to that allowed in the budget for the same period. (See Fig. 65.)

Semi-Annual Budget Period

A well-known chemical company budgets its selling expenses semi-annually.

Each branch is required to submit on the form shown in Fig. 66 an estimate of the tonnage it expects to sell and a detailed estimate of the cost of selling, giving a comparison with actual expenses item by item for the six months just preceding the estimate.

The following classifications of expense are included:

1. Rent, Light & Heat
2. Salaries—Supervisory
3. Salaries—Clerical
4. Salaries—Salesmen
5. Commissions—Salesmen
6. Traveling Expenses—Salesmen
7. Traveling Expenses—Other
8. Printing & Stationery
9. Office Supplies
10. Postage, Freight & Express
11. Telephone
12. Insurance
13. Legal Expenses
14. Collection Fees & Charges
15. Maintenance—Motor Vehicles
16. Operating Supplies & Expenses—Motor Vehicles
17. Credit Information, Reports, Fees and Expenses
18. Salaries—Collectors
19. Depreciation—Motor Vehicles
20. Telegraph and Messenger Service
21. Warehouse Expenses
22. Other Expenses

A sub-total is taken in order to determine the operating expenses per ton on tonnage sold or estimated.

23. State & City Licenses
24. Other Expenses

A total is then taken and the total expense per ton on tonnage sold and/or estimated to be sold is then computed.

The branches are required monthly to submit itemized statements showing the actual expenses compared with those approved in the budget and if there is a substantial deviation, a reasonable explanation must accompany the statement.

Expense Distribution Report

When the Income and Departmental expense for the head office have been computed, they are listed on an Expense Distribution Report, which provides space for inclusion of the totals of the branch office reports.

This Expense Distribution Report, like the branch re-

MONTH				YEAR TO DATE	
AMOUNT	% OF BUDGET			AMOUNT	% OF BUDGET
		Commission $11287.50			
$ 9902.50	72	Less floor Bkge. 1385.		$78115.25	81
227.80	90	Profit in Interest		1622.14	92
372.24	46	Profit in Trading		4116.92	73
650.00	112	Profit in Bank Stk. Tdg.		3361.83	83
175.00	80	Profit in Investments		822.50	54
Cr.122.50		Loss in Error a/c			
$11205.04	71	GROSS PROFIT		$88038.64	80
$ 1875.00		Monthly Salaries	10	$13222.00	
990.00		Weekly Salaries	11	7894.00	
		Extra Compensation	12		
$ 2865.00	92	TOTAL PAY		$21116.00	96
167.00	94	Advertising	20	842.50	68
50.00	42	Books, Publications & Subscriptions	21	672.40	81
25.00	100	Charity & Contributions	22	125.00	71
112.50	100	Dues, Assessments & Registrations	23	750.00	96
28.50	75	Entertainment, Clubs, Etc.	24	242.81	91
137.80	112	Insurance	25	867.10	101
		Legal & Expert Service	26		
24.00	76	Lunches & Supper Money	27	142.00	64
129.50	91	Postage	28	916.00	92
300.00	100	Rent	29	2100.00	100
64.22	79	Stationery & Printing	30	515.00	71
18.00	52	Supplies	31	112.16	46
46.40	87	Telegraph & Cable Charges	32	364.18	98
		Telephone Equipment	33	120.00	72
216.00	108	Telephone Tolls	34	1682.20	120
397.50	100	Tickers	35	2654.13	95
40.00	94	Traveling Expense	36	360.00	121
827.17	98	Wires	37	5792.68	98
33.33	100	Depreciation & Repairs	39	233.33	100
		Miscls.	38		
$ 5481.92	95	TOTAL PAY & DIRECT EXPENSE		$39607.49	98
$ 5723.12		DEPARTMENT PROFIT (Gross Profit Less Pay and Dir. Expense)		$48431.15	
		Unusual Expense	40		
$ 416.67		Administration		$ 2916.69	
3384.00		Service		24810.00	
$ 3800.67		TOTAL INDIRECT EXPENSE		$27726.69	
$ 9282.59		GRAND TOTAL EXPENSE		$67334.18	
$ 1922.45	73	NET PROFIT		$20704.46	112

Fig. 65: Branch Report for Budget of Brokerage House

port shows the percentage of each item for the month to the budget amount and the percentage of the cumulative figure for the "year to date" to the budget amount, and in addition shows the percentage each item for the "year to date" bears to the total Budget.

If Income falls below the Budget expectations, the branches and department heads are required to pare expenses; when Income exceeds expectations care is exercised to see that the increase in expenses, especially "Unusual" expenses, is commensurate with the increased Income.

Short Term Budget

In contrast with the procedure described in the preceding paragraphs, the budget policy of a smaller manufacturing corporation presents certain points of interest. This company has an annual sales volume averaging between one and one-half and two million dollars, divided, however, among several sales departments which show wide variations in seasonal volume and margins of profit.

As a result, the cash position for the near term is a matter of importance; hence the company operates on the basis of a budget computed and corrected bi-monthly—a policy which might seem unduly laborious, but which is carried out with a minimum of effort, due to a highly developed cost system and very efficient expense control.

This budget is under the direct supervision of the treasurer, who has an intimate knowledge, based on long experience, of the sales potentialities by months or seasons, the manufacturing activities and costs in the different departments, the sales and advertising expenses, the administrative burden and all fixed charges, as well as the current ratios of collection of accounts receivable, reduced to weekly terms.

The company operates on a strict purchase control system, whereby all raw materials, supplies and equipment, as well as advertising material (a very substantial item) are requisitioned on forms prepared in triplicate, the original (except in the case of very small items) to be approved by the treasurer's department before or when the purchase is consummated, the duplicate filed in the treasurer's office, and the triplicate retained by the purchasing department.

As a result of this system the treasurer's file contains a complete advance record of all bills and commitments, and the treasurer's office therefore has a dependable basis for calculating the amount and probable payment date of all important obligations of the company.

On this basis a budget is maintained, divided into bi-monthly periods, and projected over a term of from two to four months. The items covered in this budget are as follows:

A. Cash at Start of Period. (The first entry for this item will, of course, be the current cash in hand, taken from the statement of cash position as of the starting date of the budget. To this figure the budget clerk adds the anticipated receipts for the first bi-monthly period, and from this sum deducts the anticipated total disbursements for the period. The resultant figure is then entered as the "Cash at Start" for the next period, and this process is repeated throughout the term of the budget.)

B. Anticipated Receipts for Period. (It is assumed that the starting date of this budget is the first day of the calendar month. The budget clerk therefore distributes the estimated receipts (from accounts receivable) for the current month, over the periods covered by the budget, according to the ratios of weekly receipts, as determined by experience. Naturally a percentage of the anticipated collections will "carry over" into the second, or perhaps even into the third month of the budget term. The sales for the current month and the following months are then computed, and the estimated collections resulting from these sales are then distributed, as above described, over the various budget periods, and entered in their proper sections under "Anticipated Receipts.")

C. Total Cash Available for Period. (This item is the sum of A and B.)

The budget then sets up the bi-monthly expenses as follows:

D. Traveling Expense. (This is a fairly constant item, easily approximated by a budget executive with experience and a knowledge of current activity to guide him.)

E. Salesmen's Commissions. (Easily approximated, as in Item D.)

F. Salaried Pay Roll. (These figures are fairly constant, as salaries are paid monthly, during the last week of the month.)

G. Weekly Pay Roll. (These figures can be closely approximated, as they include the factory overhead pay roll, which is practically constant, and the productive labor pay roll, which can be easily computed with comparative accuracy for the short term, partly on the basis of past

experience for the season, and partly on consultation with the productive department heads, who have a keen perception of the probable factory activity for several weeks in advance.)

H. Branch Office Expense. (Reasonably constant, and adjusted by a monthly check during the first week of the month.)

I. Miscellaneous Expense. (This item consists of a number of major expenses, budgeted separately, and thrown together in the General Budget under one heading. These expenses or disbursements are easily anticipated by the treasurer, who is in close touch with the regular and unusual demands of the business. This group includes dividends, interest on loans, mortgage, etc., substantial donations, pensions, taxes, petty cash, and a variety of other disbursements not covered by requisitions.)

J. Freights Prepaid. (Easily estimated on seasonal experience, with adjustments for abnormal or subnormal activity.)

K. Accounts Payable. These consist of three different groups, classified as follows:

K-1. Actual Accounts Payable. (Easily computed and allocated to periods from actual unpaid invoices at hand.)

K-2. Accounts Payable from Requisitions. (These include liabilities resulting from orders placed, but not yet billed. The treasurer's assistants are familiar with the practice of the larger vendors from whom major supplies are purchased, and can compute with great accuracy the approximate dates when the bulk of the company's unfilled orders will be shipped, billed and payable. In the case of unusual purchases, such as new equipment, a large order for advertising material, or a contract with a new vendor, consultation with the contracting department is necessary.)

K-3. Anticipated Accounts Payable. (This item would seem to offer real difficulties. It is a fact, however, in this business, as in a large percentage of manufacturing companies, that a very large proportion of total accounts payable result from purchases from a few large vendors of major supplies or materials, and the astute budget executive, with the experience of past years and seasons to guide him, can, without inordinate effort, forecast the major purchases, which really determine the budget, for a period of weeks, with due allowance for current business

BUDGET OF BRANCH OFFICE SELLING EXPENSES

Six Months Ending _____ OFFICE _____

Acct.	Sub Account Classification	Expense six months to		Estimated Expenses six months to	
		Sold	Actual Tons	Estimated sales	
	Tonnage Sold or Estimated			Tons	
1	Rent, Light and Heat				
2	Salaries - Supervisory				
3	Salaries and Wages - Clerical				
4	Salaries - Salesmen				
5	Commissions - Salesmen				
7	Traveling Expenses - Salesmen				
8	Traveling Expenses - Other				
10	Printing and Stationery				
11	Office Supplies				
12	Postage - Freight and Express				
13	Telephone Expense				
14	Insurance				
15	Legal Expense				
16	Collection Fees and Charges				
23	Maintenance - Motor Vehicles				
24	Operating supplies and Expenses - Motor Vehicles				
38	Credit Information, Reports, Fees and Expenses				
41	Salaries and Wages - Collectors				
61	Depreciation - Motor Vehicles				
63	Telegraph and Messenger Service				
	Memo: Expenses (Sum of A/c 9,15,19,20,21,22 35,36,43,44,45,46,47,48,49,50,56,57,62 and 64)				
	Other Expenses (Sum of A/c 9,15,19,20,21,22 25,26,37,39,40,42,51,52,53,54,55,58,59 and 60)				
	Sub Total				
16	Expenses Per Ton on Tonnage Sold or Estimated				
28	State and City Licenses				
	Advertising Total				
	Expense Per Ton on Tonnage Sold or Estimated				

Prepared by _____ APPROVED: _____

Checked by _____ _____ Local Manager.

Fig. 66: Budget of Branch Office Selling Expense of Large Chemical Company

conditions, development of new products and other variable factors.)

With the figures before him the budget clerk adds the cash available at the start of the period (Item A) to the anticipated receipts for the period (Item B), and sets down the sum in Total Cash Available (Item C).

He then adds all the anticipated disbursements (Items D to K-3) and enters the total as Item X in the last column, representing Total Anticipated Disbursements for the period. This item (X) is then subtracted from Total Cash Available for the period (Item C), and the resultant figure is then entered as the estimated "Cash at Start" (Item A) for the following bi-monthly period, as previously described.

To save clerical labor and provide a check as to accuracy, the budget form is usually prepared for several months, and at the start of the period the figures for the period under consideration (two or three months) are entered lightly in pencil. As each bi-monthly period is completed, the actual results for the period are entered in red ink, and the figures for the following periods can be erased and revised, if the variations from the former estimates are great enough to warrant revision.

The type of budget described is shown in Figure 67.

It will be noted that the period covered by this budget includes the summer months, with the result that the June receipts are fairly substantial, because of at least normal sales volume in May, while the July and August receipts diminish progressively, due to normal seasonal reduction in sales volume.

The July disbursements (with the exception of the dividend payment) reflect the mid-summer operating let-down, but in August it will be noted that heavy accounts payable, resulting from expenditures for advertising materials and new machinery purchased in preparation for the busy winter season, combined with reduced receipts, bring about a cash deficit which necessitates a bank loan.

This is probably an entirely normal condition at this period of the year. The value of the budget, of course, results from the fact that it enables the budget officer and the executive committee to compare the probable situation, as of the coming September 1st, with that obtaining in past years, taking into consideration trade conditions and prospects, ruling prices for raw materials, and other factors which aid in shaping policy.

If the conditions reflected are quite favorable, the committee may decide to speed up production through the summer, add to physical equipment and take other steps which may necessitate an earlier loan than the budget

Period	Cash at Start	Anticipated Receipts	Total Cash Available	Traveling	Commission	Weekly Payroll	Monthly Payroll (Salaried)	Branch Offices	Factory Items	Accounts Payable Actual	Accounts Payable Anticipated	Anticipated Dated Accounts Payable Disbursements	Other Anticipated Disbursements	Total Disbursements
June 1 - 15	$ 25,000	$ 50,000	$ 75,000	$ 1,500	$ 3,000 (d)	$ 12,000	$	$ 1,000	$ 1,500	$ 3,500			$ 6,000 (e)	$ 54,000
June 16 - 30	22,000	120,000	142,000	3,500 (a)	3,000 (c)	22,000	15,000		2,000	17,000	3,000		3,000	68,000
July 1 - 15	23,000	40,000	63,000	1,500	2,500	14,000		4,000	1,000	5,000	10,000	5,000	4,000	47,000
July 16 - 31	16,000	90,000	106,000	1,000	2,500	14,000	15,000		1,500		15,000	30,000	6,000 (d)	95,000
August 1 - 15	11,000	35,000	46,000	1,000	2,000	15,000		4,000	1,000		10,000	2,500	3,000	61,000
August 16 - 31	(15,000)	80,000	65,000	2,000	2,500	16,000	15,000		2,500			55,000	4,000	97,000
Sept 1 - 15	(32,000)													

(a) Includes Convention Expenses
(b) Commissions are paid in one Department only
(c) Period includes three pay days
(d) Payment for machine built on contract
(e) Includes Installment Federal Income Tax
(f) Includes quarterly dividend

Fig. 67: Short Term Budget for Manufacturing Company of Moderate Size

forecasts, but which will result in greater sales volume and profits for the busy term.

On the other hand, if the budget indicates an unfavorable condition, the committee is properly forewarned, and can at least change its plans for the near term by reducing operations, postponing contemplated repairs or purchases of equipment, and otherwise changing plans to meet a situation of which the officers would not have been concretely cognizant had it not been for the figures and probabilities revealed by the budget.

It is not within the province of this volume to dwell at length on the many uses to which budgets of various types may be put in aiding the executive mind to shape business policies. The few examples offered, however, may be suggestive, and in any event it is obvious that, whoever may be charged with the responsibility of preparing the budget, an alert accounting and statistical department is a prime requisite, if the budget is to be characterized by the authority and dependability which justify the effort involved in its maintenance.

CHAPTER XXV

FINANCIAL STATEMENTS AND REPORTS

Financial Statements

The objective toward which the keeping of accounts of any enterprise is directed is the preparation of a financial statement which will represent a true picture of the business; the balance sheet, showing the financial position of the company upon the date the statement bears, and the income statement, showing the changes which have taken place in the business during the period which the statement covers. Primarily the financial statement is prepared from the standpoint and for the information of the owners of the business. In the case of the corporation, however, where ownership interests are divided, usually among a large number of stockholders, the actual managers of the corporation, namely, the officers and board of directors, have an equally keen interest in the contents of the statement, although from a slightly different standpoint. The creditors, including bondholders of various classes, and secured and general creditors of various types are interested in the financial statement for reasons of a different nature. Stated in a very general way, the common stockholders are principally interested in earnings, the management are interested in changes reflecting the maintenance of policies, and the creditors look first of all to the security underlying the obligations. Today practically all of the persons interested in financial statements, including stockholders, are familiar with their contents and the significance of the component items. As will be discussed in a succeeding paragraph, however, submission of statements to stockholders is usually accompanied by explanation of items requiring comment. Briefer notations are often appended by the accounting executive who prepares statements especially for the board of directors when such comments would appear to be necessary or helpful. This is usually for the guidance of those directors who are not regularly employed in the corporation's business.

Analysis of Financial Statements

Explanations of items on the financial statement are ordinarily not made for the use of the corporation's officers or of creditors. Such explanations are not required pro-

viding the accounts of the corporation and the preparation of the financial statement are conducted in accordance with well established practice. From the figures presented in the financial statement and in financial statements issued for previous periods, the officers of the company are able to form an accurate picture of the results of managerial programs particularly when the figures in the statement are supplemented, as is usually the case, by statistical reports prepared for the guidance of major authorities. In respect to creditors, bondholders can usually satisfy themselves by the application of accepted formulae as to the element of security, other than actual liens, represented by the condition of the company as revealed by the statement. It is necessary for general creditors to devote particular attention to the examination of statements and trained credit men are qualified by the application of familiar principles of credit analysis to form accurate judgments as to the credit risks. For the protection of creditors "false financial statement" laws have been passed in many of the states, violations of which are punishable by severe penalties. Where such statutes exist creditors are justified in accepting information presented in financial statements with assurance that no misrepresentation exists. Whether viewed from the standpoint of management or from the standpoint of creditors, it is very important that the balance sheet and income statement be arranged in accordance with accepted standard forms. If a standard form of balance sheet and income statement is not adopted and maintained, or if any variation in the manner of presenting the contents is permitted during the periods which are taken for comparison, the value of the statement may be lessened or perhaps completely destroyed. This matter is so important that banks usually and vendors of merchandise frequently require the debtor corporation to fill out prescribed forms calling for specific facts.

Reports to Banks

The information required from depositors upon which a bank bases its decisions upon loan applications is usually supplemented by credit reports obtained through agencies and special investigators, and facts obtained from the bank's internal records, such as average daily balance, covering the period immediately preceding the request for the loan, the applicant's line of credit, previous loan record with the bank, and so forth. The applicant is often required, however, to answer specific questions as to market, inventory, stocks contracted for, property valuation, character of

C-3-0

PLEASE ANSWER EACH AND EVERY QUESTION

CORPORATION STATEMENT

Name _____

Address _____ **Business** _____

TO CHELSEA BANK & TRUST COMPANY
New York City

For the purpose of procuring and establishing credit from time to time with the above Bank for claims and demands against them, the undersigned furnishes the following as being a true and correct statement of his or their financial condition on the _____ day of _____ 19 , which the bank can consider as continuing full and accurate until notice in writing of any change is delivered to the Bank, and agrees to notify said Bank immediately in the event that any change occurs that materially reduces his or their ability to pay all claims and demands against him or them.

In consideration of granting any credit by said Bank at the request of the undersigned, he or they agree that in case of his or their failure or insolvency, or in the event of it appearing at any time that any of the following representations are untrue, or in the event of the insolvency or bankruptcy of any party whose name shall appear on any note, draft, trade acceptance or other instrument purchased by the Bank or discounted by said Bank for the undersigned, or upon default being made in the payment of any obligation held by the Bank upon which the undersigned shall be either primarily or secondarily liable, or in case of the occurrence of such change, as aforesaid, or of failure to notify of such change as above agreed, or if the undersigned assign any accounts or transfer or encumber any of their assets in such a way as in the opinion of the Bank affects their business or financial condition, or if execution be issued on any judgment obtained against the undersigned, all or any of the claims or demands against the undersigned held by said Bank, shall at its option immediately become due and payable without demand or notice, and the same may be charged against any balance of any account of the undersigned kept with said Bank which is hereby given a continuing lien upon such balance and deposits made from time to time, or any other credit or asset belonging to the undersigned, to secure all liabilities of the undersigned held by the said Bank.

Further, that the exercise of or omission to exercise such option in any instance shall not waive or affect any other subsequent right to exercise the same.

ASSETS		LIABILITIES	
Cash:		**Notes Payable for Merchandise**	
On Hand		**Trade Acceptances Outstanding**	
In _____ Bank		**Notes Payable for Borrowed Money:**	
In _____ Bank		To _____ Bank	
In _____ Bank		To _____ Bank	
Notes Receivable:		To _____ Bank	
From Customers (current)		For Paper Sold through Brokers	
Customers' Trade Acceptances		To Others	
From Subsidiaries, Branches or Controlled Companies		**Letters of Credit and Acceptances**	
From Officers, Stockholders or Employees		**Accounts Payable for Merchandise**	
Accounts Receivable:		TOTAL CURRENT LIABILITIES	
From Customers (current)		**Funds on Deposit With This Corporation**	
From Subsidiaries, Branches or Controlled Companies		**Accrued Interest, Taxes, Dividends, etc.**	
From Officers, Stockholders or Employees		**Real Estate Mortgages (due _____)**	
Merchandise:		**Bonded Debt (due _____)**	
Raw Material			
Finished		**Other Liabilities:**	
In Process			
TOTAL QUICK ASSETS			
Real Estate and Buildings		Total Liabilities	
Machinery and Fixtures		**Reserves:**	
Investments		For Depreciation of Plant and Equipment	
Good Will, Patents, Drawings, Etc.			
Insurance, Taxes, Etc., Prepaid		**Capital Stock Outstanding:**	
Other Assets: Itemize		Preferred	
		Common	
		Surplus and Undivided Profits	
TOTAL		TOTAL	

We have not hypothecated any of our Accounts Receivable or Merchandise and should we do so at any furture time, we agree to notify you immediately. We know of our own knowledge and not from information imparted by our bookkeeper or any other person, that our condition today is as good as when above inventory was taken.

Fig. 68: Form of Application For Bank Loan

Insurance on Buildings and Equipment $_____ On Merchandise $_____
If your company has any mortgage or bonded indebtedness, please state what assets have been pledged as security therefor:

Annual sales for year ended_____ 19___ $_____
Are any of your assets pledged, hypothecated or subject to any lien, except as mentioned in the preceding paragraph? If so, please give details:

Life Insurance for benefit of our Company amounts to $_____
Upon what basis is merchandise inventoried?

Present market value of merchandise now on hand carried over:
From 1919? _____ From 1921? _____
From 1920? _____ From 1922? _____
And in which items do you include these amounts?
Date of organization_____ 19___
If you have any doubtful or slow accounts, please state what provision has been made therefor:

Is your company contingently liable by suits or other liability, itemize below:
Upon Customers Notes Discounted, Sold or Otherwise Transferred
Upon Drafts Negotiated
For Accommodation Endorsements
For Guarantees Given
Upon Bonds or other Obligations for others
Under Contracts or Purchase Agreements
Under Pending Law-Suits
Please give names of brokers, if any, through whom your paper is sold:

If your paper bears personal endorsements, please give net worth of endorsers, exclusive of their interest in this company.

State usual selling terms:
What books of account do you keep of your business?
If your books are audited periodically by certified accountants, please state when last audited and by whom

Names of Officers and Directors	Title	Stockholdings

Please Give Particulars of Each Parcel of Real Estate

Description	Street and Number	City or Town & State	Title in Name of	Assessed Value	Mortgages	Equity

PLEASE ANSWER THE ABOVE QUESTIONS YES, OR NO
WITH FULL DETAIL WHERE REQUIRED

Fig. 68: Continued

COMPARATIVE STATEMENTS

MERCHANDISE ACCOUNT

For last year as shown by statement for period begun_____ 19___ and ended_____ 19___

Merchandise Bought for Sale	
Cost of Manufacture or Producing	
Plus Inventory at Beginning of Year	
Total	
Less Inventory at End of Year	
Leaving Cost of Goods Sold	
Add Cost of Selling and all other Expense	
Total	
Net Sales Deducting Credits and Returns	
Showing Profit or Loss on Sales of	
Income from other Operations	

PROFIT AND LOSS ACCOUNT

For last year as shown by statement of for period begun_____ 19___ and ended_____ 19___

Dividends		Surplus Balance	
Withdrawals		Interest Received	
Interest		Merchandise Profit	
Worthless Accounts		Income Not Otherwise Included	
Depreciation on Merchandise			
Depreciation on Plant			
Items Not Otherwise Deducted			
Balance			

BALANCE SHEET FOR PRECEDING YEAR ENDING_____ 19___

Cash		Notes Payable, Merchandise	
Notes Receivable		Trade Acceptances	
Accounts Receivable		Notes Payable for Borrowed Money	
Merchandise		Notes Payable to Bank	
Real Estate		Letters of Credit	
Machinery and Fixtures		Accounts Payable Merchandise	
Fixtures		Funds on Deposit	
Good Will, Patterns, Etc.		Accrued Interest, Taxes, Etc.	
Insurance, Taxes, Etc., Prepaid		Real Estate Mortgages	
Other Assets:			

The undersigned has read both sheets and each and every question and expressly represents that all of the facts and figures mentioned therein are correct within the personal knowledge of the undersigned.

Date Signed_____ 19___ Firm Name_____

Sworn to before me this_____ day of_____ 19___ By_____
Officer of Corporation and Title.

Witnessed by Employee of Bank as to signature.

.....

Fig. 68: Concluded

notes and accounts receivable and of notes and accounts payable, character of bond indebtedness, segregation of surplus account items and the dividend record or capacity for dividend payments. The principal concern of the bank is whether the loan will be paid at maturity, and for that reason the bank's line of inquiry is concentrated upon the extent of current assets and their liquidity and their ratio to the amount of current liabilities. The ratio customarily assumed as requisite is two dollars of current assets for every dollar of current liabilities, familiarly designated as the "two-to-one" ratio. Although this is the most important relation between the items in the financial statement, from the bank's point of view, the relations between other items are also pertinent to the bank's investigation. Some of these relations have a very important bearing when statements are analyzed for purposes other than credit. A form of application for bank loan is shown in Fig. 68.

Significance of Ratios in Statement Analysis

The value of studying ratios and changes in ratios between appropriate items of the financial statement lies chiefly in the fact that by this means significant trends are established which are more valuable in measuring the development of the business than the mere comparison of the respective items on financial statements on different dates.

The trends ascertained from the determination and comparison of ratios may be generally grouped into trends of earnings, trends of expense, trends of turnover and trends of invested capital. The ratios which are considered as having significant bearing on trends of earnings are the ratio of surplus net profits to sales, ratio of operating profits to sales, ratio of operating profits to capital, ratio of net profits to net worth, and ratio of gross profits to sales. The ratio considered to have a significant bearing on trends of expense is the ratio of expenses to sales. The ratios usually taken to measure the rate of turnover of working capital are the ratio of net sales to current assets when compared with the rate of turnover of receivables represented by the ratio of net sales to receivables and the rate of turnover of merchandise represented by the ratio of net sales to merchandise inventory. The ratios considered as having a significant bearing on the trend of invested capital are the ratio of fixed assets to the sum of net worth plus total debt, the ratio of current assets to the sum of net worth plus total debt and the ratio of other assets to the sum of net worth plus total debt; also the ratio of net worth

to fixed investments, the ratio of funded debt to fixed investments and the ratio of current assets to fixed investments.

This attempt at grouping ratios must not be taken to indicate that such a grouping is universally or even widely recognized. Any logical grouping would serve as well. An elaborate discussion of ratio analysis would be impossible in the limited space available. For comprehensive information the reader is referred to the several books on the subject.

In practice the calculation of ratios is usually reduced to a routine procedure. The system established by the credit executive of a prominent corporation has proved convenient and effective. A looseleaf record has been devised; on the left-hand margin of each sheet appear the various items from the balance sheet and income statement and vertical lines are ruled separating the spaces in which are to be inserted the figures for the respective periods as statements are received. At the bottom of the form in the left hand margin are enumerated the various ratios desired. After the ratios are calculated for each period they can be readily compared, the trend can be quickly ascertained, and the aggregate import of the respective trends promptly judged.

The Ratio Analysis Chart presented in Fig. 68a, is a modification of a system used by the controller of a prominent manufacturing concern for showing ratio changes between balance sheet items for quarterly periods. As actually used the chart is confined to one year periods and two charts are used to show the ratios, the ratios to be graphically displayed being so allocated to the respective sheets that crosscutting of curves is avoided, and the actual figures for each quarter are inserted in the appropriate columns and marginal footnotes containing explanations can be noted on the chart. This system has the advantage over methods of plotting of balance sheet items in that it is less difficult to interpret and is readily adaptable to the particular purposes of the accounting executive.

Classification of Reports

Reports may be classified into two general divisions, (1) reports prepared for the information and guidance of the major executives of the corporation and (2) reports prepared for persons outside of the corporation. Embraced within the first class are department reports, prepared under the supervision of department executives, reports of department executives to the controller, treasurer, secretary

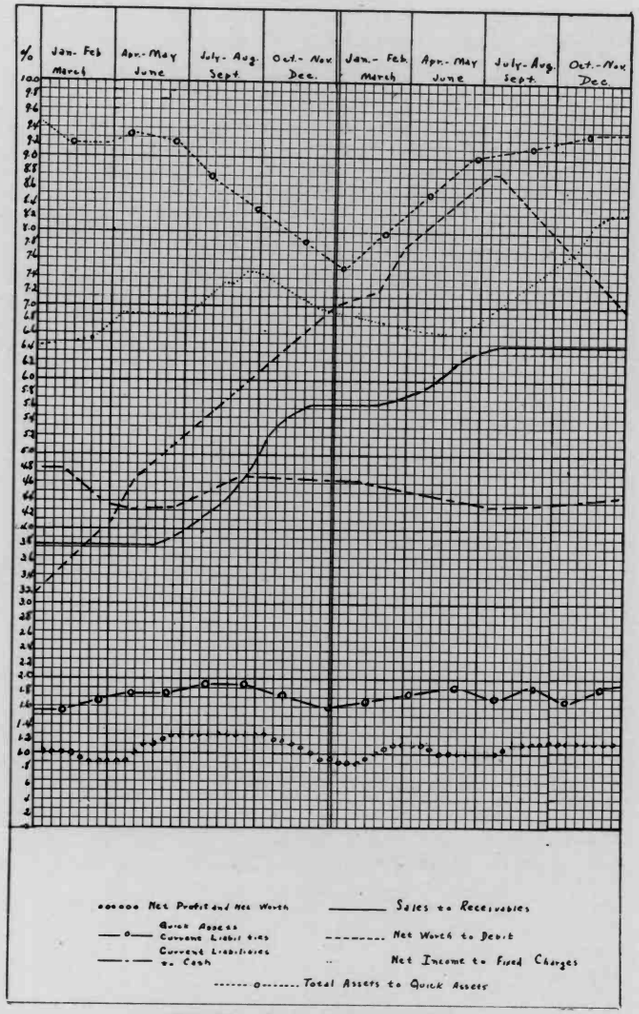


Fig. 68 a: Ratio Analysis Chart

or president of the corporation and reports prepared for the information of the Board of Directors. The contents of such reports may comprise first, information produced by or obtainable from the accounts and, second, statistical information much of which is automatically produced by the accounting system although not essential to the compilation of the financial figures themselves. When the controller, in addition to his accounting responsibility, has charge of methods used in all departments, as is frequently the case, one phase of his problem of prescribing accounting methods is to determine what information not strictly essential to the financial summaries, but valuable for guidance of executives responsible for the various business activities, and for the guidance of major authority, can be obtained as a by-product of accounting operation without too great an imposition of burdensome detail and with due regard to the comparative importance of the statistical information so developed.

Reports prepared for persons outside of the corporation embrace reports required by law, such as information reports which corporations are required to furnish periodically to the state, (Section IX), tax reports required to be furnished to the Federal government and to state and local authorities, reports required by creditors or business concerns contemplating the extension of credits to the corporation, reports required by banking houses who are negotiating the underwriting of the corporation's securities, reports to the stock exchange that lists the corporation's securities, and reports to stockholders.

Annual Report to Stockholders

Under the laws of some states annual reports are required to be made to stockholders by the president or by the Board of Directors. As the actual managers of the affairs of the company it is proper that the directors should render an accounting, as to the results of their efforts, to the corporation's owners, the stockholders. Irrespective of express provisions in the statute, charter or by-laws the custom of rendering periodical reports to stockholders is practically universal among corporations of substantial size. Invariably there appear as the chief, and in some instances the only, components of the annual report, the operating statement and balance sheet. These are usually prepared by the officer or executive responsible for the corporation's accounts, although, sometimes because of legal requirements, and sometimes because it is considered good policy, the certification of a certified public account-

TEXAS GULF SULPHUR COMPANY
(INCORPORATED)

INCOME ACCOUNT FOR YEAR ENDED DECEMBER 31, 1929

Gross Income		$29,883,243.23
Total Cost of Sales and Other Expenses, Including Federal Taxes accrued		13,635,765.00
Profit and Loss Surplus for Period		$16,247,478.23
Add: Surplus at Beginning of Period		15,301,082.29
		$31,548,560.52
Deduct: Dividends 30, 31, 32 and 33		10,160,000.00
Total Surplus Carried to Balance Sheet		$21,388,560.52

BALANCE SHEET—DECEMBER 31, 1929

ASSETS

Property and Plants at Cost:		
Lands and Development	$10,383,588.95	
Plants, Buildings, Machinery and Equipment	13,270,188.96	
		$23,653,777.91
Working and Trading Assets at Cost:		
Materials, Supplies and Sulphur Inventories		8,731,959.72
Current Assets:		
Cash on Hand and on Deposit	$5,713,141.15	
Accounts Receivable—Customers	2,552,685.07	
Notes and Trade Acceptances Receivable	405,439.14	
Miscellaneous Receivables and Advances	176,306.69	
Securities	47,000.00	
		8,894,572.05
Deferred Assets		63,306.66
		$41,343,616.34

LIABILITIES AND CAPITAL

Capital Stock: Authorized, Issued and Outstanding, 2,540,000 Shares without Par Value		$6,350,000.00
Current Liabilities:		
Accounts Payable	$557,677.71	
Taxes Accrued (State)	748,248.72	
		1,305,926.43
Reserve for Federal Taxes, Uncertain Accounts, Miscellaneous and Contingent Liabilities		3,831,967.62
Reserve for Depreciation of Plants, Buildings, Machinery and Equipment, and for Amortization of Un-mineralized Land Values		8,467,161.77
Surplus, Including Reserve for Depletion		21,388,560.52
		$41,343,616.34

Respectfully submitted,

H. F. J KNOBLOCH,

Treasurer.

Fig. 69: Annual Report of Corporation

ing firm is appended. In addition to the financial statements, the annual report usually contains a discussion of outstanding developments in the corporation's affairs. As a rule annual reports are phrased in simple, untechnical language, so that stockholders of all classes can understand them.

TEXAS GULF SULPHUR COMPANY
(INCORPORATED)
75 EAST FORTY-FIFTH STREET

New York, January 31, 1930.

To the Stockholders of
Texas Gulf Sulphur Company:

Herewith we are sending you a statement of this Company's financial condition, consisting of an income account covering the fiscal year ended December 31, 1929, and a balance sheet showing assets and liabilities on December 31, 1929.

Stockholders have reported a number of annoying experiences in connection with their treating as return of capital in their Federal Income Tax returns that portion of our distributions which came from Depletion Reserve, and therefore during the past year our corporation came to an agreement with the Treasury Department respecting this matter for the period prior to 1929.

It was further understood that, thereafter, before informing stockholders, we should agree with the Treasury Department as to what amount came from Depletion Reserve. We regret that for this reason this information will be slightly delayed, but we hope to be enabled to send it to you some time in February.

Very truly yours,

TEXAS GULF SULPHUR COMPANY

By: H. F J. KNOBLOCH,

Secretary.

Fig. 70: Notice Accompanying Annual Report

Annual Report of Texas Gulf Sulphur Company

The annual report presented in Fig. 69, issued to the stockholders of Texas Gulf Sulphur Company, is interesting by reason of its consisting merely of the financial statement, signed by the treasurer of the company. This report was mailed with the notice shown in Fig. 70.

This notice is interesting in respect to the reference to difficulties encountered by stockholders in treating in their

Federal Income Tax returns the portion of distributions which came from Depletion Reserve as return of capital, and the announcement that the corporation had come to an agreement with the Treasury Department respecting this matter for the period prior to 1929, requiring a slight delay before stockholders could be notified as to what portions of the distributions, in accordance with the agree-

TEXAS GULF SULPHUR COMPANY
(INCORPORATED)
75 EAST FORTY-FIFTH STREET

New York, February 14, 1930.

To the Stockholders of
Texas Gulf Sulphur Company:

Please be informed that during the year 1929 this company paid four distributions to its stockholders, which distributions came from Free Surplus and Reserve for Depletion in the following proportions:

Date	Amount per Share	From Free Surplus	From Depletion Reserve
March 15, 1929	$1.00	95.6754%	4.3246%
June 15, 1929	1.00	100.0000%	———
September 16, 1929	1.00	100.0000%	———
December 16, 1929	1.00	100.0000%	———

We are advised that the distributions from Depletion Reserve are to be treated, under the Federal Revenue laws, as capital distributions.

Very truly yours,

TEXAS GULF SULPHUR COMPANY

By: H. F. J. KNOBLOCH,
Secretary.

Fig. 71: Notice to Stockholders re Depletion

ment with the treasury department, should be regarded as coming from depletion reserve. In Fig. 71 is shown the subsequent notice mailed to stockholders as to the apportionment of distributions, and the advice to stockholders that distributions from depletion reserve are to be treated under the Federal Revenue Laws as capital distributions.

Annual Report of Continental Can Company, Inc.

The Continental Can Company, Inc. issued a comparatively brief report, dated February 1930, covering the

affairs of the corporation during 1929. The report was signed by the president and consists of one page devoted to a review of the business activities during the year, a consolidated balance sheet and statement of consolidated income and surplus, comparative for 1929 and 1928. The president's comments relate to earnings, dividends and stock, position, nature of indebtedness, construction completed, acquisition of other corporations in affiliated lines, condition of the industry, redemption of preferred stock and an expression of appreciation of the cooperation of officers and employees.

Annual Report of Baldwin Locomotive Company

The annual report of the Baldwin Locomotive Works is presented to the stockholders, in booklet form, with the picture of the founder on the cover. On the first page is the title of the report, "Nineteenth Annual Report,—The Baldwin Locomotive Works—Consolidated with Standard Steel Works Company—Southwark Foundry and Machine Company—The Midvale Company and subsidiaries—December 31, 1929." The following four pages of the report are devoted to listing the names of the Directors of the Baldwin Locomotive Works, Standard Steel Works Company, Southwark Foundry and Machine Company and the Midvale Company. On the next two pages are listed the names of the transfer agents, registrars of stock and the representatives and agents, throughout the world, of the Baldwin Locomotive Works. Then appears the president's report. Appended to the report is a summary of operations from July 1, 1911 to December 31, 1929, a consolidated statement of surplus, as of December 31, 1929, a certification by the Certified Public Accounting firm Stockwell, Wilson and Linvill, to the accounts of the Baldwin Locomotive Works and its wholly owned subsidiaries and a certification by the Certified Public Accounting firm, Arthur Young and Company that the accounts of the Midvale Company and subsidiaries have been correctly spread on the consolidated accounts of the Baldwin Locomotive Works as presented in the report.

Report of the North American Company

In contrast to the comparatively brief reports of the industrial corporations which have been comprehensively described in the preceding paragraphs are the elaborate reports issued by the United States Steel and other very large corporations. A number of the public utility corporations also prepare voluminous reports. Within the

TO THE STOCKHOLDERS

The 1929 earnings of your Company, after making full provision for depreciation, taxes and all bad or doubtful accounts, were $8,967,702.51, compared with earnings of $6,690,796.45 in 1928, an increase of $2,276,906.06.

Cash dividends, paid or declared, on the Preferred and Common Stock, amounted to $4,277,599.63, leaving $4,690,102.88 of earnings to be added to surplus.

At December 31, 1929, 1,725,045 shares of Common Stock were outstanding, compared with 1,459,991 Shares at the end of 1928. Of the Common Shares issued during the year 205,217 Shares were issued for cash to Stockholders and Employees on subscription and the balance in connection with properties acquired.

There are no notes payable excepting a purchase money mortgage, amounting to $100,000 Accounts payable are current Inventories have been priced at cost or market, whichever is lower

During the year new factories were constructed at Los Angeles and Oakland, California, and additions were made to six of the Company's other plants. Expenditures for these and other plant improvements amounted to $6,993,980.49

The facilities of the Company were further extended through the acqusition during the year of six can manufacturing companies, one manufacturer of corrugated shipping containers and one manufacturer of can making machinery

Although the production of principal canning crops in 1929 was materially greater than in 1928, there is no evidence of overproduction in the industry, nor is there any curtailment in demand for cans from this source. The Company's output of General Line Cans is showing a constantly increasing trend.

On January 15, 1930, the outstanding Preferred Stock was redeemed at $125. per Share and accrued dividend, leaving only the Common Shares outstanding

We desire to express to all of the Officers and Employees our appreciation for the splendid spirit of cooperation shown by them, without which the results of the past year could not have been attained.

Yours very truly,

CARLE C. CONWAY, President.

February 13, 1930

Fig. 72: Annual Report of Corporation

CONTINENTAL CAN COMPANY, INC. (OF NEW YORK)
AND DOMESTIC SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1929

ASSETS			LIABILITIES		
Current Assets:			**Current Liabilities:**		
Inventories (at lower of Cost or Market)	$13,775,552.03		Accounts Payable	$ 1,457,719.70	
Accounts Receivable	4,805,927.14		Accrued Wages, Taxes, Insurance, etc.	581,374.38	
Notes Receivable	2,869,936.95		Dividends Payable	71,814.75	
Cash	16,025,667.68		Purchase Money Mortgage	100,000.00	
Accrued Interest and Discount	70,434.45				$ 2,210,908.83
Stock Purchased for Employes	189,962.65		**Capital Stock Authorized:**		
		$37,737,480.90	75,000 Shares 7% Cumulative Preferred at $100.00 each		
Real Estate, Buildings, Machinery, Etc.	$55,154,219.86		2,000,000 Shares Common of No Par Value		
Less: Reserve for Depreciation	11,193,275.70				
		43,960,944.16	**Capital Stock Issued and Outstanding:**		
Investments		1,091,940.50	• 40,917 Shares 7% Cumulative Preferred at $100.00 each	$ 4,093,700.00	
Prepaid Insurance, Etc.		379,514.58	1,725,045 Shares Common of No Par Value	62,728,563.70	
					66,822,263.70
			Reserve for Federal Taxes		1,122,567.46
			Other Reserves		185,235.81
			Earned Surplus		12,828,904.34
			• Called for Redemption January 15, 1930 at $125.00 and accrued dividends		
		$83,169,880.14			$83,169,880.14

We have examined the books and accounts of Continental Can Company, Inc. (of New York), in the Head Office of the Company in New York, and of certain of the branches and domestic subsidiary companies, and have had produced to us the statements of the other branches and domestic subsidiary companies; all as at December 31, 1929. In our opinion, the above Consolidated Balance Sheet and attached statement of Consolidated Income and Surplus correctly set forth the combined financial condition of the companies at December 31, 1929, and the results of their operations for the year ended that date

49 Wall Street, New York, N. Y.
February 7, 1930.

DELOITTE, PLENDER, GRIFFITHS & CO.
Auditors

Fig. 72: Continued

Continental Can Company, Incorporated (of New York) and Domestic Subsidiary Companies

Statement of Consolidated Income and Surplus
Comparative for the Years Ended December 31, 1929 and 1928

	Year ended December 31, 1929		Year ended December 31, 1928	
Net Earnings for the year, before providing for depreciation and federal taxes		$11,902,273.29		$ 8,858,691.19
Deduct:				
Reserve for Depreciation	$1,826,769.78		$ 1,267,894.74	
Reserve for Federal Taxes	1,107,801.00		900,000.00	
		2,934,570.78		2,167,894.74
Net Earnings		$ 8,967,702.51		$ 6,690,796.45
Add:				
Balance to credit of Surplus or Undivided Profits at beginning of year		8,563,440.59		7,239,410.22
		$17,531,143.10		$13,930,206.67
Deduct:				
Non-recurring items chargeable to Surplus and not to current operations	$ 220,849.13		$ 303,268.18	
Premiums Paid in redemption of Preferred Stock	203,790.00			
Surplus applied in redemption of Preferred Stock	.....		180,500.00	
Depreciation on Patents	.....		15,537.20	
Reserve for U. S. Can Preferred Stockholders	.....		150,000.00	
Goodwill of Parent and Subsidiary Companies written off	.....		146,148.47	
	$ 424,639.13		$ 795,453.85	
Dividends Declared and Paid:				
Preferred Stock	311,912.61		346,036.25	
Common Stock	3,965,687.02		3,243,275.98	
100% Stock Dividend on Common Stock	.....		3,550,000.00	
		4,702,238.76		7,934,766.08
Balance of Surplus or Undivided Profits		$12,828,904.34		$ 5,995,440.59
Balance of Surplus Applied in redemption of Preferred Stock		.....		2,568,000.00
Earned Surplus, as per Balance Sheet		$12,828,904.34		$8,563,440.59

Fig. 72: Concluded

limits of available space it is impossible to present a report of such dimensions. A brief description follows, however, of the report of the North American Company, released on March 11, 1930. This report covers 24 pages, unbound, and wire-stitched at the top. The first eight pages of the report comprise the president's signed statement to the stockholders. A notable feature is the summary with which President Dame prefaces his communication, which reads as follows:

"Briefly summarizing the accompanying report and statements, the important features of the year's operations were as follows:

Gross Earnings increased 9.02% over the year 1928.

Net Income from Operation increased 10.76% over the previous year, reflecting the decrease, from 52.49% for 1928 to 51.73% for 1929, in the proportion of Gross Earnings required for Operating Expenses, Maintenance and Taxes.

Appropriations for Depreciation Reserves amounted to 10.57% of Gross Earnings and were equivalent to $2.91 per share on the average number of shares of North American Common Stock outstanding during the year.

After deducting Depreciation and all other reserves, the Balance for Dividends and Surplus amounted to $28,806,824, of which $1,820,034 was paid in dividends on North American Preferred Stock.

The balance of $26,986,790, after all preferred dividends, is an increase of 19.50% over the previous year, and is equivalent to $5.03 per share on the average number of shares of North American Common Stock outstanding during 1929, compared with $4.68 per share on the average number of shares outstanding during 1928.

Under your Company's policy of paying dividends on its Common Stock in Common Stock, the entire balance of $26,986,690 is available for investment in the business.

On December 31, 1929 Reserves were $113,690,322. Undivided Profits amounted to $96,387,457, and Capital Surplus to $28,951,785, Total Surplus being $125,339,242."

The following six pages of the president's report is an elaboration of features of particular interest to stockholders. The report of the vice-president and general manager occupies the following ten pages, and discusses operations, property additions and the consolidated financial statements. The certification by the certified public accountants of the consolidated statements and the statements themselves are followed by maps of territories covered by the principal subsidiaries of the North American Company and by a list of officers and directors.

Reports Within the Organization

The reports prepared under the supervision of department executives for the guidance of such executives or for rendering to a superior authority are commonly grouped under certain familiar classifications. Thus the treasurer's department reports comprise daily and weekly cash reports such as the report shown in Fig. 73. Where the corporation has a number of branch offices it is necessary to provide a system for the control of branch funds, necessitating the periodical reporting of cash position of the branches to the central office. In connection with the reporting of current financial position it is customary as a part of the budget program, to extend the record for a past period to a future date to the end of establishing an estimate of future cash positions. The future period so taken may be a day, week, month, several months or even longer although naturally the longer the time covered by the forecast, the more difficult it will be to make the figures accurate. Reports for other departments of the business such as sales, purchases, etc., are also prepared for daily, weekly and monthly periods. Copies of the reports of the previous day's business are frequently made available for reference by the respective executives and for embodying in the daily summaries usually prepared for the use of the president or major authorities. Operation reports are also compiled covering daily, weekly, and monthly periods so that the superintendent or general manager is kept advised as to the status of all matters bearing on production.

Within the limited space here available it would be impossible to present actual reports covering all of the periods and departments mentioned.

Monthly Financial Statements

In order to facilitate the preparation of monthly financial statements, complete forms for presenting detailed information under the appropriate classifications are usually prepared by the controller or accounting executive. The forms shown in Figs. 74, 75, 76 and 77, reproduced by courtesy of the Electric Hose & Rubber Co., are excellent demonstrations of typical forms employed for the purpose.

The statement of Profit & Loss shown in Fig. 74 compares each item of income and expense and the various ratios for the current month with the same item or ratio for the corresponding month last year, shows the increase or decrease over that month; and then compares the respective items and ratios this year to date with last year to date and shows the increase or decrease over last year.

Form 34

Daily Report

DATE—

FINANCIAL

Opening Balance	
Receipts:	
Suspense	
Past Due	
Last Month	
Current Month	
Advance Dating	
Garden Hose	
Miscellaneous	
Total	
Notes and T. A. Discounted	
Bank Collections	
Total	
Payments	
Cash Balance	
Bank Balance	
Wilmington Trust Co	
National City	
Farmers' Bank	
Equitable Trust Co	
Total	
Accts. Payable Due Wilmington	
Notes Payable Due Wilmington	
Accts. Payable Due New York	
Notes Payable Due New York	
Total	

ESTIMATED PROFIT AND LOSS

DATE—

	Month to Date	Previous Mo. to Date
Sales		
Gross Profit / Loss		
Est. Sell'g and Adm.-Exp		
Net Profit / Loss on Sales		
Net Profit / Loss —Factory—Operation		
Total Est. Net Profit / Loss		
Feet Shipped		
" Produced		
" Finished Inv		

DATE—

FINANCIAL

Opening Balance	
Receipts:	
Suspense	
Past Due	
Last Month	
Current Month	
Advance Dating	
Garden Hose	
Miscellaneous	
Total	
Notes and T. A. Discounted	
Bank Collections	
Total	
Payments	
Cash Balance	
Bank Balance	
Wilmington Trust Co.	
National City	
Farmers' Bank	
Equitable Trust Co.	
Total	
Accts. Payable Due Wilmington	
Notes Payable Due Wilmington	
Accts. Payable Due New York	
Notes Payable Due New York	
Total	

ESTIMATED PROFIT AND LOSS

DATE—

	Month to Date	Previous Mo. to Date
Sales		
Gross Profit / Loss		
Est. Sell'g and Adm.-Exp.		
Net Profit / Loss on Sales		
Net Profit / Loss —Factory—Operation		
Total Est. Net Profit / Loss		
Feet Shipped		
" Produced		
" Finished Inv.		

Fig. 73: Daily Report, Treasurer's Department

Sales for the four classes of hose are shown; cost of sales is determined for each of the four classes of hose, thus showing at a glance the gross profit for each class of hose sold for the month and also a comparison of the profit made for the same month last year. In addition a comparison is made of the profit to date for the current year with that for the same period of the previous year. This is a great aid to those administering the business.

The selling price of Returned Goods is deducted from the Total Sales in order to determine the Net Cost of Sales.

Then the Gross Profit is computed.

The percentage the Gross Profit bears to the Net Cost of Sales is next computed.

Selling Expense thereupon is itemized and then totaled.

Space is provided for showing the percentage of Selling Expense to Net Cost and the amount of Gross Profit less Selling Expense.

Administrative Expense is itemized and then totaled.

The percentage that Administrative Expense bears to Net Cost is then shown.

Space is provided for showing the following:

Net Profit on Sales
Net Profits on Miscellaneous Sales
Profit on Factory Operations
Total Net Profit
% Net Profit on Sales to Cost
% Total Net Profit to Cost of Sales

Detail Balance Sheet

The Detail Balance Sheet shown in Figs. 75 and 76 states each item of assets and liabilities for the current month and compares it with the same item last month, showing the increase or decrease over the last month's figures.

This form is designed primarily for a detailed comparison of the following items of current assets:

Material and Work in Process
Material—Raw Stores
Factory Supplies
Mechanical Stores

It will be noted that there are ten kinds of supplies shown in "Mechanical Stores."

The Comparative Balance Sheet shows under Current Assets the respective totals for the foregoing four items

STATEMENT OF PROFIT AND LOSS FOR_____

ELECTRIC HOSE & RUBBER CO.

ACCOUNTS	Current Month This Year	Same Month Last Year	Increase Decrease	This Year To Date	Last Year To Date	Increase Decrease
SALES						
Electric—Garden Hose						
Other Garden Hose						
Electric Mechanical Hose						
Other Mechanical Hose						
TOTAL						
Returned Goods						
NET SALES						
COST OF SALES						
Electric—Garden Hose						
Other Garden Hose						
Electric Mechanical Hose						
Other Mechanical Hose						
TOTAL						
Cost—Returned Goods						
NET COST SALES						
GROSS PROFIT						
% Gross Profit to Net Cost						
SELLING EXPENSE						
Samples						
Advertising						
Traveling Expense						
Freight Outward						
Allowances						
Commissions						
Office Salaries						
Salesmen Salaries						
Rent						
Depreciation						
Insurance						
Other Expense						
Taxes						
Miscellaneous						
TOTAL						
% Sell Expense to Net Cost						
GROSS PROFIT LESS SELLING EXPENSE						
ADMINISTRATIVE EXPENSE						
Executive Salaries						
Office Clerk Salaries						
Interest						
Discount						
Office Expense						
Stationery						
Auditing Expense						
Legal and Special Expense						
Insurance						
Subscriptions and Dues						
Estimated Bad Debts						
Depreciation						
Rent						
Traveling Expense						
Taxes						
Miscellaneous						
TOTAL						
% Adm. Expense to Net Cost						
Net Profit on Sales						
" " " Mis. Sales						
Profit on Factory Operations						
Total Net Profit						
% Net Profit on Sales to Cost						
% Total Net Profit to Cost Sales						

Fig. 74: Statement of Profit and Loss

Detail Balance Sheet Period Ending_____

ELECTRIC HOSE & RUBBER COMPANY

ASSETS	CURRENT MONTH	LAST MONTH	INCREASE	DECREASE
MATERIAL IN PROCESS				
Work in Process—Material				
—Labor				
—Overhead				
Material in Process Total				
MATERIAL—RAW STORES				
Inventory, Rubber				
" Reclaimed Rubber				
" Chemicals				
" Cotton				
" Wire				
" Couplings				
" Package Materials				
" Lead				
Handling Raw Stores				
Material Raw Stores Total				
FACTORY SUPPLIES				
Inventory, Cafeteria Food				
" Supplies				
" Drugs and Medicines				
" Fuel Oil				
" Lubricating Oil				
" Stationery				
Factory Supplies Total				
MECHANICAL STORES				
Inventory, Builders' Supplies				
" Castings				
" Electrical Supplies				
" Bolts, Nuts, Screws, etc.				
" Machine Parts				
" Metals				
" Packings				
" Plumbing Supplies				
" Pulleys, Bearings, Bushings, etc.				
" Tools—New				
Mechanical Stores Total				
Current Assets Total				
OTHER ASSETS				
Patents and Trademarks				
Stock in Other Corporations				
Insurance Investment				
Other Assets Total				
Total Assets				
LIABILITIES				
Accounts Payable				
Bills "				
Dividends "				
Current Liabilities Total				
RESERVE FUNDS				
Reserve for Depreciation				
" " Bad Debts				
" " Taxes				
" " Freight				
" " Profit Sharing				
" " Samples				
Reserve Funds Total				
Capital Stock				
Surplus				
Net Profits—Current Year to Date				

Fig. 75: Detail Balance Sheet

which are set forth in detail on the Detail Balance Sheet and includes the following additional items:

Cash
Accounts Receivable
Bills Receivable and Trade Acceptances
Material Finished

Under the assets are enumerated the following classifications:

Deferred Charges
Plant Accounts
Other Accounts

Space is provided under each classification for typing in the name of any account which may not have been printed on the Comparative Balance Sheet such as "Stock in other Corporations" shown under "Other Assets" on the Detail Balance Sheet.

Under Liabilities, the usual Current Liabilities are shown and in addition the "Reserves" are detailed, followed by the customary closing items.

Distinction Between Branch Office and Affiliated Company Accounting

Country-wide distributing organizations are so common in this era of combinations and large enterprises that the subject of branch office accounting is one which has steadily increasing applications. Where the branch is a subsidiary or an associate enterprise operated under an independent corporate form, the situation does not involve branch office accounting. The relations so constituted are those of separate companies and although such relations must be accurately reflected in the accounts, as is discussed in Chapter XXVII, the practical accounting problems are of quite a different character.

It is true that watchfulness must be exercised to prevent possible confusion in branch office accounting as in the case of separate but affiliated corporations. Thus accounts of the branch which may be owed to the head office may not be included in the accounts payable of the branch because they do not comprise liabilities running to outside creditors. As described in a subsequent paragraph, if the main office adopts the practice of billing the branch at retail prices, care must be taken that the books of the main office do not show an unwarranted profit while the books of the branch show an unwarranted deficit. To the extent that such confusion should be carefully anticipated and pre-

Form 132 250 3-1-28

Detail Balance Sheet Period Ending_____

ELECTRIC HOSE & RUBBER COMPANY

ASSETS	CURRENT MONTH	LAST MONTH	INCREASE	DECREASE
PLANT ACCOUNTS				
REAL ESTATE				
Land				
Buildings				
Elevators				
Heating System				
Plumbing				
Sprinkler System				
Electric Light System				
Underground Pipes				
Railroad Siding				
Total Real Estate				
PLANT EQUIPMENT				
Gen. Machinery				
Power Plant Machinery				
Motors				
Cranes and Hoists				
Power Transmission				
Power Wiring				
Tools				
Dies				
Pipes and Fittings				
Tanks				
Fire Apparatus				
Patterns				
Trucks				
Scales				
Motor Trucks				
Factory Furniture and Fixtures				
Time Recorders				
Watchman System				
Auto Call System				
Signs				
Laboratory Equipment				
Miscellaneous Effects				
Equipment Not In Use				
Total Plant Equipment				
OFFICE FURNITURE AND FIXTURES				
Wilmington				
Los Angeles				
Office Machinery				
Total Office F. and F.				
EQUIPMENT UNDER CONSTRUCTION				
Plant Accounts Total				
DEFERRED CHARGES				
Insurance Prepaid				
Interest "				
Taxes "				
Advertising "				
Stationery "				
Samples "				
Freight "				
Total Deferred Charges				
CURRENT ASSETS				
Cash				
Accounts Receivable				
Bills Receivable and Trade Acceptance				
Current Assets Total				
FINISHED MATERIAL				
Good Hose				
Remnants				
Misc. Waste Material				
Inventory Valuation				
Finished Material Total				

Fig. 76: Detail Balance Sheet, Concluded

Comparative Balance Sheet_____

ELECTRIC HOSE & RUBBER CO.

ASSETS	CURRENT MONTH	PRECEDING MONTH	INCREASE	DECREASE
CURRENT ASSETS:				
Cash				
Accounts Receivable				
Bills Receivable and Trade Acceptances				
Material Finished				
Material and Work in Process				
Material Raw Stores				
Material Factory Supplies				
Material Mechanical Stores				
Total,				
DEFERRED CHARGES:				
Insurance Premiums Unearned				
Interest Prepaid				
Taxes Unexpired				
Advertising				
Stationery				
Samples				
Freight				
Total,				
PLANT ACCOUNTS:				
Real Estate				
Plant Equipment				
Office Furniture and Fixtures				
Equipment Under Construction				
Total,				
OTHER ASSETS:				
Patents and Trademarks				
Insurance Investment				
Total,				
Total Assets,				
LIABILITIES				
CURRENT LIABILITIES:				
Accounts Payable				
Bills Payable				
Dividends Payable				
Total,				
RESERVES:				
Reserve for Depreciation				
Reserve for Bad Debts				
Reserve for Taxes				
Reserve for Profit Sharing				
Reserve for Freight				
Reserve for Samples				
Total,				
Capital Stock				
Surplus				
Net Profits Current Year to Date				
Total Liabilities,				

Fig. 77: Comparative Balance Sheet

vented, by a careful examination of related or "offsetting" items in the accounts of the branch office and the head office the discussion in Chapter XXVII covering consolidated statements applies. However, the character of the interrelation of accounts between separate corporations with independent management and the character of the interrelation of accounts between head office and branches are entirely dissimilar. The accounts of branches are usually controlled from the main office and the degree of control reflected in the accounting systems will correspond largely to the degree of authority reserved in the head office, varying with the nature of the activities of the branch.

Diversity of Branch Office Accounting

The character of the accounting procedure at the branch office and the method of "tying in" branch office accounts to the head office accounts depend upon the nature of the operations of the branch. If the branch is merely an agency, with functions limited to the taking of orders which are forwarded to the head office for checking of credits, acceptance and subsequent collection, the books required to be maintained at the branch are usually confined to records of sales, commissions, and so forth. As the degree of responsibility at the branch is increased to include the assumption of authority for extending credits, deliveries from branch stocks, collections of accounts and payment of its own bills from a fund supplied for that purpose, the accounting at the branch becomes more elaborate. Where the branch is entrusted with practically the entire responsibility for handling its own affairs, the accounts are generally on a basis comparable to a separate enterprise, except that a system of centralized control is maintained at the head office. In some cases the treasurer at the head office starts the branch with a fund considered adequate for the needs of the local business and thereafter the branch remits the portion of cash receipts exceeding the amount of the fund to the home office, or in cases of emergency the branch may be permitted to call on the head office for a special remittance to be returned to the head office out of the cash receipts of the branch when the need for the particular use of such excess fund no longer exists. Sometimes the head office deposits a fixed amount for the use of the branch and replenishes withdrawals up to that amount in a manner similar to that of imprest petty cash arrangements. Collections, both cash and checks, are often required to be deposited in the local account to the credit of, and to be withdrawn only by, the head office, and all payments of branch expenses are then made by the home office.

The accounting controls established at the head office are usually supplemented by periodical reports in prescribed form from the branch and, when a considerable stock of goods is carried at the branch, by frequent verifications of inventories by visiting auditors. By carefully watching the rate of turnover of stocks and the expenses of the branch in relation to volume of gross sales, by checking the quality, quantity and condition of stocks, and preserving a tight rein upon branch collections the management at the head office can efficiently direct branch office affairs. By arranging the accounting systems and report procedure at the branch office so that information regarding branch office operations is systematically presented for the guidance of the head office executives responsible therefor, an immediate and thorough control may be exercised over the activities of the branch.

Accounts at Home and Branch Office

Where branch offices are permitted to keep a complete set of records an account entitled "Home Office" will appear on the branch ledger. The home office account is a proprietorship account and as such receives credit for everything it transfers to the branch and conversely is charged with everything received from the branch. The net profit shown by the branch is closed into the Home office account as a credit, and the net loss of the branch is closed into the Home office account.

The Home office usually bills its merchandise to the branch either at cost or at selling price.

The following entries illustrate the accounting procedure on the books of both the Home office and the branch where billings are made to the branch at cost.

	BRANCH BOOKS			HOME OFFICE BOOKS		
1 Initial Investment by Home Office	Cash	$3,000		Branch Account	$3,000	
	Home Office		$3,000	Cash		$3,000
2 Shipment to Branch	Merchandise–Home office	$6,000		Branch Account	$6,000	
	Home office		$6,000	Purchases (or Inventory)		$6,000
3 Purchases From Creditors	Purchases	$2,000		None		
	Accounts Payable		$2,000			

	BRANCH BOOKS			HOME OFFICE BOOKS	
4 Sales by Branch	Accounts Receivable	$9,000		None	
	Sales		$9,000		
5 Collections by Branch	Cash	$5,000		None	
	Accounts Receivable		$5,000		
6 Payments by Branch	Accounts Payable	$1,000		None	
	Cash		$1,000		
7 Expenses Paid in Cash	General Expenses	$1,500		None	
	Cash		$1,500		
8 Cash Remitted to Home Office	Home office	$4,000		Cash	$4,000
	Cash		$4,000	Branch	$4,000
9 Closing Entries of Branch Closing Inventory valued at $2,000	Profit and Loss	$9,500		None	
	Merchandise–Home office		$6,000		
	Purchases		2,000		
	General Expense		1,500		
	Inventory (New)	2,000		None	
	Sales	9,000			
	Profit and Loss		11,000		
10 Transfer of Profit to Home Office	Profit and Loss	$1,500		Branch office	$1,500
	Home office		$1,500	Branch Income	$1,500

The branch office books at this point show the following trial balance figures:

Branch Office
Trial Balance

Cash	$1,500	
Accounts Receivable	4,000	
Merchandise Inventory*	2,000	
Accounts Payable		$1,000
Home Office		$6,500
Totals	$7,500	$7,500

*At cost prices.

It will now be assumed that for some reason the Home office does not desire the branch to know the cost of the merchandise which it sells. Therefore all billings of merchandise made to the branch are at the selling price. The following transactions under the sales price method of billing are illustrated:

	BRANCH BOOKS			HOME OFFICE BOOKS	
1 Initial Investment by Home Office	Cash	$1,000		Branch Account	$1,000
	Home office		$1,000	Cash	$1,000
2 Shipment to Branch (At Selling Price)	Merchandise–Home office	$9,000		Branch Account	$9,000
	Home office		$9,000	Branch Shipments	$9,000
3 Sales by Branch	Accounts Receivable	$6,000		None	
	Sales		$6,000		
4 Collections by Branch	Cash	$4,000		None	
	Accounts Receivable		$4,000		
5 Expenses paid in Cash	General Expense	$ 500		None	
	Cash		$ 500		
6 Cash Remitted to Home Office	Home office	$3,000		Cash	$3,000
	Cash		$3,000	Branch Account	$3,000
7 Closing Entries	Sales	$6,000		Branch Profit & Loss	$ 500
	Inventory (New)	3,000		Branch Account	$ 500
	Home office	500			
	Merchandise–Home office		$9,000		
	General Expense		500		

The Branch office books at this point would show the following balances:

Branch Office
Trial Balance

Cash	$1,500	
Accounts Receivable	2,000	
Merchandise Inventory*	3,000	
Home Office		$6,500
	$6,500	$6,500

*Includes profit to Home Office based on 50% over cost.

It will be noted that under this particular method no Profit and Loss account appears on the Branch books. Since all merchandise is billed to the Branch at selling price no profit will accrue to the branch. The transactions as reflected in the accounts are merely closed out to the Home office account.

On the assumption that sales are made at a gross profit of 50% over cost the Home office now makes the following entry to take up the profit on sales made by the Branch, and also to set up a reserve for the profit unrealized which is included in the merchandise inventory of the Branch:

(Original billing at sales price to Branch)	Branch Shipments	$9,000	
(Cost of Merchandise Shipments to Branch)	Purchases		$6,000
(For profit in Branch Inventories)	Reserve for Unrealized Profits		1,000
(For profit on Branch Sales)	Branch Profit & Loss		2,000

Accounting for Fixed Assets

As to Fixed Assets purchased, if the Home office purchases these assets and carries them on its books the particular Fixed Asset account is charged (such as "Branch Equipment," etc.) and a credit is made to Accounts Payable or Cash as the case may be.

If the branch purchases the Fixed Assets it will make an entry:

Home Office .....Dr.
Cash (or Accounts Payable) ....Cr.

The Home office will then record the transaction by the following entry:—

Branch Equipment .....Dr.
Branch Account .....Cr.

Effect on Statement

If the Home office desires to show on its Income, Profit and Loss Statement the factors making up the Branch Profit or Loss instead of merely showing the net balance in the Branch Profit and Loss account, it can substitute for this Profit and Loss Account the actual accounts that reflect the transactions.

For instance, taking the second illustration just presented which resulted in a Net Profit on branch operation

of $1,500, the following accounts would appear in the trading section of the Profit and Loss Statement:

Branch Sales	$6,000
Less—Cost of Branch Sales	4,000
Profit on Branch Sales	$2,000

In the administration expense section of the Home office profit and loss statement there would be shown:—

Branch Expenses	$ 500

In preparing the balance sheet the assets and liabilities of the branch can be consolidated with those of the home office. Care must be taken to eliminate offsetting items in the respective accounts as for example the branch office account constituting an asset on the home office books and the home office account constituting a liability on the branch office books. The Reserve for Unrealized Profits in Inventories on the home office books would be deducted from the branch account Inventories in case the merchandise at the branch is billed to it by the home office at a price including a profit.

Specimen of Branch Office Report

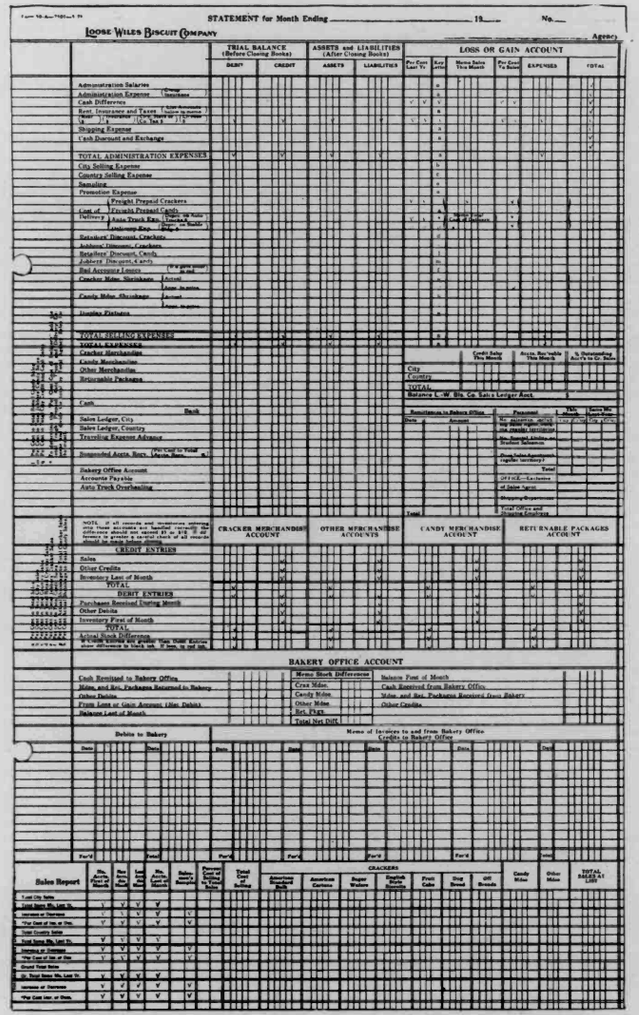
A well-known cracker company requires each agency to fill out and forward in duplicate a most comprehensive statement of the month's transactions (on a form 18 inches x 22¾ inches) which must reach the district branch office within ten days after the close of the month.

The statement is divided perpendicularly into two parts.

The upper half of the left-hand side of the statement shown in Fig. 78 provides a space for the main accounts; then a "Trial Balance;" then "Assets and Liabilities" column; and columns for "Loss or Gain" account, providing for showing the per cent that each item (with a few exceptions) bears to sales of last year and also the per cent the item bears to sales of this year.

For Trial Balance purposes the Administration Expenses are shown in totals, while the Selling Expenses are itemized with the exceptions of Salesmen's Salaries and Cost of Delivery.

However, on the right side of the form shown in Fig. 79 space is provided for giving the name of each chauffeur and the amount paid him; and Auto truck expense. Similarly under "Delivery Expense" is shown the name of each driver and amount paid him, also "Board of Horses," "Hire of Horses," etc.


STATEMENT for Month Ending _____ 19____ No.____

LOOSE WILES BISCUIT COMPANY

Agency

TRIAL BALANCE (Before Closing Books) — DEBIT | CREDIT

ASSETS and LIABILITIES (After Closing Books) — ASSETS | LIABILITIES

LOSS OR GAIN ACCOUNT — Per Cent Last Yr. | Amt. Sales | Sales This Month | Per Cent To Date | EXPENSES | TOTAL

Administration Salaries
Administration Expense (Stamps, Stationery)
Cash Differences
Rent, Insurance and Taxes (Sales Agency) (Bakery) (Warehouse)
Light, Heat and Power (Sales Agency) (Bakery) (Warehouse)
Shipping Expense
Cash Discount and Exchange
TOTAL ADMINISTRATION EXPENSES
City Selling Expense
Country Selling Expense
Samples
Promotion Expense
Freight Prepaid Crackers
Cost of Delivery { Handling Peanut Candy; Auto Truck Exp. (Bakery, Sales Agency); Assistance Exp. (Sales Agency and Bakery)
Retailers' Discount, Crackers
Jobbers' Discount, Crackers
Retailers' Discount, Candy
Jobbers' Discount, Candy
Bad Accounts Losses (W-off gain recov'd)
Cracker Mdse. Shrinkage { Actual; Estimated
Candy Mdse. Shrinkage { Actual; Estimated
Trucking Platform
TOTAL SELLING EXPENSES
TOTAL EXPENSES
Cracker Merchandise
Candy Merchandise
Other Merchandise
Returnable Packages
Cash
Bank
Sales Ledger, City
Sales Ledger, Country
Traveling Expense Advance
Suspended Accts. Recv. (Per Cent to Total Accts. Recv.)
Bakery Office Account
Accounts Payable
Auto Truck Overhauling

Credit Sales This Month | Accts. Rec'vable This Month | % Outstanding Acct's to Cr. Sls.
City
Country
TOTAL
Balance L.-W. Bis. Co. Sales Ledger Acct.

Remittances to Bakery Office — Date | Amount
Payments — No. | Name | Amt. | Amt. Rec'd. on credit envelope | No. Receipt Slips or Student Salesmen | From Sales Agency (agent territory) | Total | OFFICE—Lectures of Sales Agent | Shipping Orders | Total Cash and Remittance Envelopes

NOTE. If all records and inventories covering any item entirely are handled through the Bakery Office, the difference should not appear at all; if all records should be kept in the Sales Agency, the entire amount should appear in the Trial Balance.

CRACKER MERCHANDISE ACCOUNT | OTHER MERCHANDISE ACCOUNTS | CANDY MERCHANDISE ACCOUNT | RETURNABLE PACKAGES ACCOUNT

CREDIT ENTRIES
Sales
Other Credits
Inventory Last of Month
TOTAL
DEBIT ENTRIES
Purchases Received During Month
Other Debits
Inventory First of Month
TOTAL
Actual Stock on Hand (Sales Agency and Bakery) (Bakery Only) (Sales Agency Only)

BAKERY OFFICE ACCOUNT

Cash Remitted to Bakery Office
Mdse. and Ret. Packages Returned to Bakery
Other Debits
From Loss or Gain Account (Mer. Debits)
Balance Last of Month

Memo Stock Differences: Cracker Mdse. | Candy Mdse. | Other Mdse. | Ret. Pkgs. | Total Net Diff.

Balance First of Month
Cash Received from Bakery Office
Mdse. and Ret. Packages Received from Bakery
Other Credits

Debits to Bakery — Date | Amt.

Memo of Invoices to and from Bakery Office — Credits to Bakery Office — Date | Amt.

Sales Report — No. Agents Last Month | No. Agents This Month | Last Month's Sales | This Month's Sales | Percent of Total Sales This Month to Sales Last Month | Total Cost of Selling | CRACKERS: Assortment Cases | Assortment Cartons | Sugar Wafers | Graham Crackers | Fresh Cake | Soda Crackers | Oyster Crackers | Candy Mdse. | Other Mdse. | TOTAL SALES AT LESS

Total City Sales
Total Sales Mo. Last Yr.
Increase or Decrease
*Per Cent of Inc. or Dec.
Total Country Sales
Total Sales Mo. Last Yr.
Increase or Decrease
*Per Cent of Inc. or Dec.
Grand Total Sales
Gr. Total Sales Mo. Last Yr.
Increase or Decrease
*Per Cent Inc. or Dec.

Fig. 78: Branch Office Report of Large Cracker Company

Space is also provided in the upper half of the right side of the form (Fig. 79) for showing the name of each employee, and amount paid under Administrative and Shipping respectively. Under the respective headings other expense applicable to the department is classified.

To the right of these two columns space is provided for giving the name and account of each debtor whose account has been charged off and the agency is required to further submit an itemized statement of the account.

The name of each customer and the amount of his account must be shown where credit has been suspended.

Promotion Expense must be itemized.

The cost of Sampling is analyzed as is also the Freight Prepaid Expense.

An Inventory for all kinds of merchandise is classified as:

(a) Insurable Amount—Including Merchandise on Spur Track
(b) Uninsurable Amount — (Bonds, Insurance premium, etc.)
(c) In Transit not on Spur Track

"Cracker Merchandise Shrinkage" for the month is analyzed as is also "Candy Merchandise Shrinkage."

Credits for Unsalable Cracker Merchandise Returned and Allowances is shown by classes of merchandise, then totaled at list and the per cent of the Total Credits to total Cracker Sales at list is shown.

Credits for Unsalable Candy Merchandise Returned and Allowances are similarly treated.

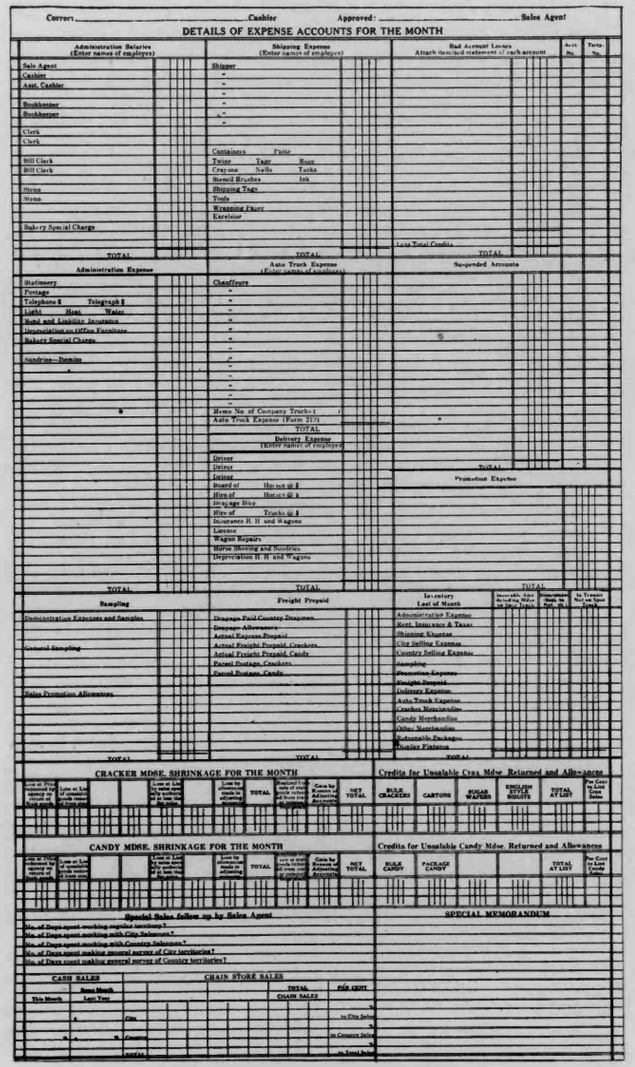
The Sales Agent analyzes his Sales Follow-up efforts by showing number of days spent on certain standard kinds of sales effort.

Cash Sales for the month and for the same month last year are compared.

Chain Store Sales are shown for city and country and also the combined total. The ratio of the city sales to the country sales is shown and *vice versa*. The percentage of total Chain Store Sales to Total Sales is also shown.

Referring again to the left side of the form shown in Fig. 78 we find the Credit Sales for the month, the Accounts Receivable for the month, and the per cent due of Outstanding Accounts to Credit Sales shown both for city and for country.

The number of salesmen by classes during the month both for city and country are compared with the same month last year. Similiarly the number of Office and Shipping


Correct _____ Cashier Approved: _____ Sales Agent

DETAILS OF EXPENSE ACCOUNTS FOR THE MONTH

Administration Salaries (Enter names of employes)
Sale Agent
Cashier
Asst. Cashier
Bookkeeper
Bookkeeper
Clerk
Clerk
Bill Clerk
Bill Clerk
Steno
Steno
Bakery Special Charge
TOTAL

Shipping Expense (Enter names of employes)
Shipper
Containers Paste
Twine Tape Rope
Crayons Nails Tacks
Stencil Brushes Ink
Shipping Tags
Tools
Wrapping Paper
Excelsior
TOTAL

Bad Account Losses Attach itemized statement of each account
Less Total Credits
TOTAL

Administration Expense
Stationery
Postage
Telephone $ Telegraph $
Light Heat Water
Bond and Liability Insurance
Depreciation on Office Furniture
Bakery Special Charge
Sundries—Items
TOTAL

Auto Truck Expense (Enter names of employes)
Chauffeurs
Memo No of Company Trucks
Auto Truck Expense (Form 211)
TOTAL

Suspended Accounts
TOTAL

Delivery Expense (Enter names of employes)
Driver
Driver
Jitney
Board of Horses @ $
Hire of Horses @ $
Jitney Hire
Hire of Trucks @ $
Insurance H. H. and Wagons
License
Wagon Repairs
Horse Shoeing and Sundries
Depreciation H. H. and Wagons
TOTAL

Promotion Expense
TOTAL

Sampling
Demonstration Expenses and Samples
General Sampling
Sales Promotion Allowances
TOTAL

Freight Prepaid
Drayage Paid Country Druggists
Drayage Allowances
Actual Express Prepaid
Actual Freight Prepaid, Crackers
Actual Freight Prepaid, Candy
Parcel Postage, Crackers
Parcel Postage, Candy
TOTAL

Inventory Last of Month
Administration Expense
Rent, Insurance & Taxes
Shipping Expense
City Selling Expense
Country Selling Expense
Sampling
Promotion Expense
Freight Prepaid
Delivery Expense
Auto Truck Expense
Cracker Merchandise
Candy Merchandise
Other Merchandise
Returnable Packages
Display Fixtures
TOTAL

CRACKER MDSE. SHRINKAGE FOR THE MONTH
Credits for Unsalable Cracker Mdse. Returned and Allowances
BULK CRACKERS | CARTONS | SUGAR WAFERS | ENGLISH STYLE BISCUITS | TOTAL AT LIST

CANDY MDSE. SHRINKAGE FOR THE MONTH
Credits for Unsalable Candy Mdse. Returned and Allowances
BULK CANDY | PACKAGE CANDY | TOTAL AT LIST

Special Sales follow up by Sales Agent
No. of Days spent working regular territory?
No. of Days spent working with City Salesmen?
No. of Days spent working with Country Salesmen?
No. of Days spent making general survey of City territories?
No. of Days spent making general survey of Country territories?

SPECIAL MEMORANDUM

CASH SALES
This Month | Same Month Last Year
City
Country
TOTAL

CHAIN STORE SALES
TOTAL CHAIN SALES | PER CENT
% to City Sales
% to Country Sales
% to Total Sales

Fig. 79: Branch Office Report, Continued

Department employees respectively are compared with the same month last year.

The reconciliation of the inventory of the respective merchandise items is made by showing under the "Cracker Merchandise," "Other Merchandise," "Candy Merchandise," and "Returnable Packages" Accounts, the Credit Entries (Sales, Other Credits and Inventory last of month) and Debit Entries (Purchases during month, Other Debits and Inventory first of month). A difference of $5.00 to $10.00 between the actual stock on hand and the inventory is permitted.

Remittances are made by the agencies to the Head office. The dates and amounts of such remittances to the Bakery office are shown.

Provision is made for a reconciliation of the account with the Bakery office. As an aid the date and amount of each invoice to or from the Bakery office is shown.

The Sales of the various kinds of Crackers, of Candy and other merchandise are shown for city, for country and total, together with the respective increase or decrease over the same month last year.

The Cost of Selling is shown both in amount and per cent for city, country and total, together with increase or decrease over the same month last year.

The Number of Customers at the beginning of the month, New Accounts obtained, Old Accounts lost and Number of Accounts at end of month are shown for city, country and total.

The Branch also makes a report "Summary of Results—All Agencies" shown in Fig. 80 to the Home Office, transmitting with the Summary a copy of each Agency's statement.

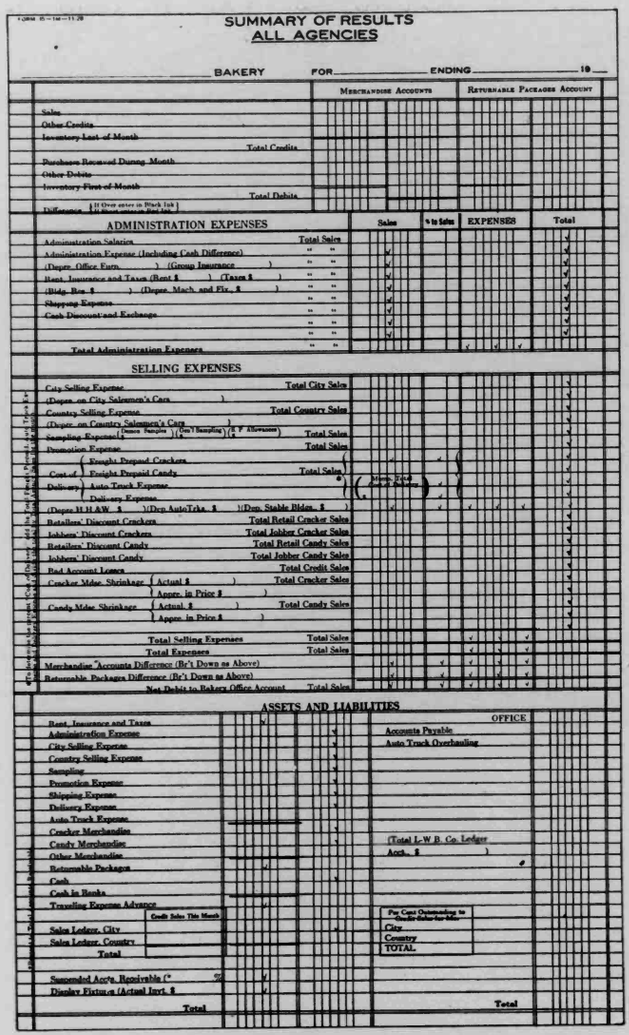
The summary shows the following:

(a) Reconciliation of the Inventory for Merchandise Accounts and for Returnable Package Account.
(b) Administration Expenses
(c) Selling Expenses
(d) Assets and Liabilities.

In addition in Memorandum form the Credit Sales for the month City, Country and Total are shown and the per cent Outstanding to Credit Sales for the month, City, Country and Total is shown.

Compensation of Branch Managers

The basis of remuneration of branch managers and salesmen varies considerably, and the accounting system



SUMMARY OF RESULTS
ALL AGENCIES

BAKERY FOR ENDING 19

Merchandise Accounts | Returnable Packages Account

Sales
Other Credits
Inventory Last of Month
Total Credits
Purchases Received During Month
Other Debits
Inventory First of Month
Total Debits
Difference

ADMINISTRATION EXPENSES — Total Sales

Administration Salaries
Administration Expense (Including Cash Difference)
(Depre. Office Furn.) (Group Insurance)
Rent, Insurance and Taxes (Rent $) (Taxes $)
(Bldg. Ins. $) (Depre. Mach. and Fix., $)
Shipping Expense
Cash Discount and Exchange
Total Administration Expenses

Sales | % to Sales | EXPENSES | Total

SELLING EXPENSES

City Selling Expense — Total City Sales
(Depre. on City Salesmen's Cars)
Country Selling Expense — Total Country Sales
(Depre. on Country Salesmen's Cars)
Sampling Expense (Demo Samples) (Con'l Sampling) (C. P. Allowance) — Total Sales
Promotion Expense — Total Sales
Cost of Delivery (Freight Prepaid Crackers; Freight Prepaid Candy; Auto Truck Expense; Delivery Expense) — Total Sales
(Depre. H. H. A. W. $) (Dep. Auto Trks. $) (Dep. Stable Bldgs. $)
Retailers' Discount Crackers — Total Retail Cracker Sales
Jobbers' Discount Crackers — Total Jobber Cracker Sales
Retailers' Discount Candy — Total Retail Candy Sales
Jobbers' Discount Candy — Total Jobber Candy Sales
Bad Account Losses — Total Credit Sales
Cracker Mdse. Shrinkage (Actual $; Appro. in Price $) — Total Cracker Sales
Candy Mdse. Shrinkage (Actual $; Appro. in Price $) — Total Candy Sales
Total Selling Expenses — Total Sales
Total Expenses — Total Sales
Merchandise Accounts Difference (Br's Down as Above)
Returnable Packages Difference (Br's Down as Above)
Net Debit to Bakery Office Account — Total Sales

ASSETS AND LIABILITIES

Rent, Insurance and Taxes
Administration Expense
City Selling Expense
Country Selling Expense
Sampling
Promotion Expense
Shipping Expense
Delivery Expense
Auto Truck Expense
Cracker Merchandise
Candy Merchandise
Other Merchandise
Returnable Packages
Cash
Cash in Banks
Traveling Expense Advance
Sales Ledger, City (Credit Sales This Month)
Sales Ledger, Country
Total
Suspended Accts. Receivable (* %)
Display Fixtures (Actual Invt. $
Total

OFFICE
Accounts Payable
Auto Truck Overhauling
(Total L-W B. Co. Ledger Accts. $)
Pay Cost Outstandings to Vendors Other than Bkry.
City
Country
TOTAL
Total

Fig. 80: Branch Office Report, Concluded

must of course be arranged to produce the information necessary for the calculation and recording of such compensations. Remuneration may be on straight salary, salary and bonus, based on quotas, salary and commission and drawing account against commissions.

Commissions may be based on an overriding on gross sales or an overriding on net sales. In some instances the status of the branch manager is practically that of a partner in the entire enterprise.

The present plan of compensation for store managers of J. C. Penny Company, Inc., is based in principle upon an original partnership idea. When the company was started each manager was a one-third partner in the store he managed. He later became a one-third partner in other stores, opened and managed by men he had trained, and financed by the earnings of his own store. This plan was successful because it depended upon the premise that men do their best work when they share generously in the results attained by their efforts. The plan was changed a few years ago in form, but not in its underlying principle, because of the rapid growth of the company and the resulting complexities.

Today the company compensates store managers in a three-fold way:

1. A salary that is graduated according to the volume and net profit of the store. This salary is similar to a drawing account and is intended to take care of a manager's necessary and reasonable living expenses.

2. A share in the profits of the store. Each manager who has demonstrated through a training period or in some cases through trial management his ability as a merchant, receives a contract for a portion of the store earnings. This portion is generous and ranges up to one-third of the store's earnings. In no case, at the present time, is it less than one-sixth. A manager is expected to share in any losses of his store, should there be such, in the same proportion as he does in the profits. In other words, he is really a partner in the store, but without the necessity of furnishing any part of the operating capital.

3. An opportunity to invest a percentage of his earnings in common stock of the company at a preferred figure below the market price. This right to purchase stock at a preferred figure is extended to managers who meet normal standards of good management in store operation. These standards are fair and an appreciable percentage of the managers qualify each year. The

stock is made available through the expansion of the company into new units.

The success of the plan results from the fact that managers' rewards for their merchandising efforts are unusually generous. Their earnings are based on the results achieved in their individual stores, but their permanent security is assured through the right to invest advantageously in the common stock of the entire company.

Billing Branch Stock at Resale Prices

Branch houses sometimes bill out the goods which they send to their various agencies in their respective territories at the retail price. To ascertain then at any time whether the agency is making or losing money, a procedure similar to the following is used:

From the gross sales as reported by the agency deductions are made for returns and allowances, etc., leaving a net sales amount. To the cost of the goods shipped to the agency is added its proportionate overhead and/or administrative expenses for the branch office based on the relation of its total sales to the total sales of the territory included under the authority of the branch office. Additions for freight, express and such other transportation charges as may be involved are added to the above mentioned costs for the particular agency. The sum total of these four items; *viz.*, (1) cost of goods at factory shipped to the agency, (2) transportation charges on the goods delivered to the particular agency and, (3) the proportional share of the overhead and administrative expenses, (4) the selling and other miscellaneous expenses of the particular agency itself. The total of these four items deducted from the sum of the net sales produces the net profit figure, if any. From this item must be deducted the taxes and interest on investment, if any, of the particular agency to arrive at the final figure.

CHAPTER XXVI

TYPES OF BUSINESSES

In the course of the various discussions in preceding chapters, the actual application of accounting principles as applied to corporation transactions has been demonstrated by practical examples and comprehensive explanations. In general the records and the accounting procedures described are common to all businesses. The differences observed in arrangement of those records and in particular accounting procedures, are principally due to differences in conditions found in types of businesses. There will, however, be dissimilarities of system among businesses of the same type due to differentiations in circumstances of particular businesses.

It has seemed advantageous to show typical statements, including both the balance sheet and operating statement of the principal types of businesses. For this purpose corporate enterprises have been grouped as follows:

1. Transportation
2. Insurance
3. Mining
4. Non-stock
5. Personal service
6. Real estate
7. Manufacturing
8. Trading
9. Financial
10. Investment Trusts

It has not been considered necessary to present the accounting systems employed in these various types of businesses in detail, with one exception, since there will be special system problems incident to a particular business in any event. The statements shown as typical of the various businesses will enable the accountant to arrange the classification of accounts and to devise appropriate systems to produce the information essential to the preparation of the periodical reports. The exception referred to, that of the investment trust, in respect to which a system of a prominent institution has been described and illustrated by the reproduction of actual forms, was made because of the comparatively recent development of these institutions in this

country, and because such a reproduction and discussion of systems has not hitherto been otherwise adequately presented in any accounting treatise.

Of the types of enterprises enumerated it has not been considered necessary to discuss or exemplify transportation companies and insurance companies, since the accounting classifications and financial statements of these companies are standardized, because of the forms and specifications prescribed by interstate and state commissions.

For a statement of a mining company the reader is referred to the annual report of Texas Gulf Sulphur Company, presented in Chapter XXV.

Origin of Investment Trusts

The investment trust had its origin in Great Britain about sixty years ago as the outgrowth of the custom among men of great wealth to entrust the responsibility for investment of their capital to attorneys or accountants, who were qualified by training and experience to administer large funds. From the practice of turning over the management of large estates to competent and confidential agents it was a natural step to form trusts whereby the investment skill of several individuals was united under the trust organization, such experts acting as trustees, and a considerable number of investors were permitted to share the advantages of the arrangement by purchasing the shares or debentures issued by the trust. Until 1879 when trusts of this character were declared by the courts to be illegal these enterprises invariably assumed the character of unregistered common law trusts. After that date, the trust form was replaced by the limited liability company, although the new organizations were still referred to by their historical designation. The first great development of the investment trusts in England occurred in the 80's when Consols were yielding a low interest rate of 3% and English capital was compelled to look abroad for opportunities. The investment trust presented an excellent solution of the problems of investors of that period, since it supplied skill in selection and management of foreign securities, diminished the risk by spreading it over an extensive list of geographically distributed and diversified securities, and the debentures of investment trusts paid four and five per cent. Despite many abuses of confidence and unfair practices on the part of their managements, the investment trusts in England proved their basic soundness.

Of the total number of British investment trusts some fifty or sixty were organized between 1863 and 1890, eight

or ten from 1890 to 1900, twenty-five to thirty between 1900 and the outbreak of the war and approximately forty since the war.

Investment Trusts in America

The first development in the United States of an organization having a general resemblance to the English investment trust was the holding company. The holding company offers the investor a share in the ownership of a number of subsidiary companies, but differs from the investment trust in that its purpose is to control subsidiaries whereas the object of the English investment trust is merely to own a limited amount of stock in each of a large number of companies. The holding company's control of subsidiaries is usually of a permanent nature whereas the securities of the investment trust may be exchanged as often as consistent with wise investment management. The Federal Land Banks of the United States are truer prototypes than holding companies of the English Investment Trust in that they issue bonds to obtain funds which are employed in loans over a diversified agricultural territory. The mutual savings banks of the various states have also been compared to investment trusts. However although there are over two hundred and fifty institutions called investment trusts doing business in this country, there are only a few which primarily function for the purpose of making investments in foreign securities. The great majority of these organizations apply the principles of diversification to the securities of various kinds of American industries and a number limit their investments to the stronger companies in a single industry. Investment companies of the type last mentioned in England, of which there are over 150, are not classed as investment trusts, but are designated financial companies or financial trusts.

Types of Investment Trusts

Many attempts at classifying investment trusts have been made, usually at least three and not more than five classes being enumerated. It is probable that only four distinct types exist and that any other so-called types are but modifications of one of these major divisions. Excluding miscellaneous financial companies which may be self-styled "investment trusts" but which examination reveals to be holding companies or financing companies, organized to hold and manage enterprises, Investment Trusts may be thus classified:

1. The Fixed Trust created by depositing a definite group of securities with a trustee, certificates of ownership in which are sold to investors. The trust is rigid, unalterable, the list of securities cannot be changed. No opportunity for management is afforded under this form of "Investment Trust."

2. The General Management Trust, which, subject to the restrictions embodied in the certificate of incorporation, trust agreement or by-laws, authorizes the exercise of liberal discretion in the purchase and sale of securities for the account of the trust. It is plain that in an organization of this kind, character and qualifications of the management are of supreme importance. The services of high grade analysts and statisticians are usually secured to assure the most efficient operation under this type of investment trust.

3. The Specialized Management Trust also allows almost complete freedom in the exercise of judgment by the managers but confines the range of investment to a particular field.

4. The Limited Management Trust restricts the authority of the managers, by provisions in the certificate of incorporation, trust agreement or by-laws, limiting the handling of the fund to a certain class or to certain classes of securities or to prescribed percentages of holdings of certain types.

Schemes of Organization

A number of investment trusts are organized as common law or Massachusetts Trusts. Some confusion has been created by confounding the common law trust form of organization with the arrangement whereby securities are put in trust as a protection to investors. There may be any type of investment trust under the Common Law Trust form of organization that may be established where the corporate form is used. (See Common Law Trust, Chapter II.) In other words a common law trust may issue only beneficiary shares in a central investment trust, constituting the trust, or it may issue its common and preferred shares or debentures in the same manner as is done by trusts operating as a corporation. The fixed investment trust is created by agreement between a corporation or common law trust acting as depositor and a trust company or other corporate trustee acting as fiduciary for the certificate holders. Specified securities are deposited with the trustee against the issuance of the certificates, which, unless

provision is made to the contrary, can be sold to investors at prices determined by the depositor corporation. The trust agreement may allow the depositor certain rights of substitution of securities, such rights being usually carefully defined and restricted to narrow latitudes of selection.

A trust of the general management type may have no fundamental or initial restrictions whatever on the organization's management of the funds, but if such restrictions are imposed these will be inserted in the certificate of incor-

INVESTMENT MANAGERS COMPANY

INVESTMENT TRUST FUND B

STATEMENT OF INCOME

Period from May 9, 1927 to September 30, 1927

INCOME:		$17,686.19
Consisting of—		
Interest Income	$8,018.96	
Profit from Sales of Securities	2,347.23	
Dividends	7,320.00	
DEDUCT:		
Management Compensation		3,503.06
UNDISTRIBUTED INCOME		$14,183.13

Fig. 81: Income Statement of Investment Trust

poration, if the organization is to be conducted as a corporation, or in the organization agreement of trust if the enterprise is to be conducted as a common law trust, or in by-laws adopted by these organizations. If restrictions are imposed in the organization documents, these usually have to do with (1) limiting the percentage of the funds which may be invested in any security or group of securities (2) prohibiting investment in securities involving unlimited liability on the part of the holders thereof, (3) prohibiting the investment in securities for the purpose of acquiring, controlling or carrying on the whole or any part of the business of any corporation, or other form of organization issuing securities.

Accounting Procedures of Investment Trusts

An important difference in accounting procedures is observed between British Investment Trusts and many investment trusts operating in America. Under the English law the British trusts, as distinguished from British financial trust companies are not required to keep their capital intact. They usually value their investments on a cost basis which is also the basis used by American trusts. In deciding the question of whether dividends should be paid, however, depreciation due to changes in market price is ordinarily not taken into account by the British Trusts. In other words a review of the affairs of about 25 leading Investment Trusts shows that only three or four show depreciation on the cost value of their investments that more than equals their reserves and surplus. The great majority make some depreciation allowances on investments, the shrinkages of which are less than the reserves provided. Although the accounting practice of not providing adequate reserves for declining values of investments has been the subject of criticism, it is counterbalanced by the numerous instances, revealed by an examination of the dividend records of these organizations, of writing down capitalizations, subsequent to the occurence of some particularly unfavorable experience. Furthermore the statements of a considerable number of such trusts show the accumulation of large surpluses made possible by the raising of vast sums from debentures issued to investors at favorable periods at low interest rates. The funds so obtained were used to acquire investments yielding a considerably higher rate of return.

Among English Investment Trusts the cost of raising capital is very frequently written off from profits realized on turnover of investments.

Accounting Procedure of American Trusts

The systems of accounting used by various types of American investment trusts vary according to the class of trust and the resulting dissimilarities of conditions. One feature that distinguishes the American Investment Trust from the English organization is the greatly increased cost in the United States of raising the capital for the fund. This cost runs from 10% to 20% for fixed trusts and from 3½ to 10% for general management trusts. Many investment trusts pursue the policy of writing off such costs out of earnings over a period of years; the cost less such reserves as may be provided for this purpose would appear as

deferred charges among the assets. Sometimes however, these costs are written off, either at once or over a short period of time, by appropriations of paid in surplus. In some instances where the securities are sold at a premium, the premium is used to absorb the cost of sale, and only the net price received, which is usually par, is set up as a capital liability.

American Investment Trusts, like those of England, usually carry their investments in the balance sheet at cost. Since a fundamental principle of investment trust operations is to purchase securities at times of depressed prices, the cost values of securities carried is on the average lower than the market. The practice of some British investment trusts of applying part of the profits on investments to write down the cost of depreciated securities, results in a condition where the figures, on the cost basis, at which investments stand on the balance sheet are in reality at considerably less than cost. This in effect results in the creation of a "hidden" reserve.

Unless the depreciation is due to some intrinsic deterioration in the quality of the investments, the practice of carrying investments at cost, thereby following the precedents set by savings banks, trust companies and insurance companies, is sound. This makes possible the comparison of figures for cash and investments on the assets side of the balance sheet, with the items of capital paid in, etc. on the liabilities and capital side. The practice of writing off any permanent impairment of securities values out of earned or paid in surplus, or by a reduction from reserves or undivided profits has the approval of most investment trust accountants.

Report of Market Valuations

Although the market values of investments are usually not shown on the balance sheet, reports of market values are necessary for the guidance of directors. The frequency of such reports depends upon the nature of the trust, particulars and summaries of market values being required in fixed trusts at brief intervals, say daily or semi-weekly, while market valuations of investments as of the date of valuation in other trusts should be reported quarterly or semi-annually. The necessity for more frequent periodical valuations of investments of fixed trusts is because the prices of participating certificates are determined by the market price of the securities (which are subject to almost daily fluctuations) plus the accrued dividends thereon.

It should be kept in mind however that market increases

INVESTMENT MANAGERS COMPANY

INVESTMENT TRUST FUND B

STATEMENT OF CONDITION

as at Close of Business, September 30, 1927

ASSETS

Securities Owned, at cost	$984,488.11
Interest and Dividends Receivable	5,476.98
Call Loans	900,000.00
Cash	71,554.81
Deposits Against Investment Trust Certificates Not Yet Issued (issued October 1, 1927)	113,000.00
	$2,074,519.90

LIABILITIES

Investment Trust Certificates Outstanding (Representing 189,218 shares in Fund)	$1,944,800.00
Subscriptions for Investment Trust Certificates (Issued October 1, 1927)	113,000.00
Due Investment Managers Company (Management Compensation in respect of the quarter year ending September 30, 1927, payable October 1, 1927)	2,536.77
Undistributed Income, per Statement (III) annexed	14,183.13
	$2,074,519.90

Fig. 82: Statement of Condition of Investment Trust

of investments are not profits actually realized and any tendency to increase the valuation in the investment accounts should be to set up the increase in the form of a reserve. The transfer should not be made directly to Profit and Loss or Surplus until the investments have been actually sold. It is the custom to carry this reserve on the balance sheet under the title of "Fluctuating Reserve."

The valuation of securities at the end of the fiscal year in connection with determination of profits and losses for purposes of special reports raises a nice question.

Whether (A) "Cost," or (B) "Current Market" or (C) "Cost or Market whichever is lower" should be the basis of valuation used is sometimes discretionary and in certain instances depends upon the particular type of organization or the status of the trust.

Diversity of Treatment of Income

The accounting treatment of earnings differs considerably among investment trusts. The management types of investment trust usually do not treat market appreciation as income, confining their statement of income to profits actually realized. This method of handling the accounts assumes special importance where preferred stocks or debentures have been distributed by these organizations to the public. Among the fixed type of investment trusts, however, since market appreciation of the investments is reflected immediately in the price of participating certificates and therefore such appreciation has the effect of capital gain, book profits are sometimes treated as earnings. Where the form of organization is the common law trust, in jurisdictions where such trusts are regarded as on the same plane as individuals or partnerships, there would seem to be no reason to doubt the propriety of such a procedure. Where, however, the investment trust is treated as subject to regulations applicable to corporations, there might be some objection raised, if, for example, dividends were declared and paid out of book profits, actual earnings from investments being inadequate. In some instances incorporated management trusts issuing only one class of shares have capitalized part of the market appreciation of investments in the form of stock bonuses.

Realized Profits

As a rule management trusts include in their statement of earnings the dividends and interest collected from owned securities and the realized profits from the sale of securities. Such is the procedure represented in the income statement

of Investment Managers Company Trust Fund B shown in Figure 81. In Fig. 82 is presented the statement of assets and liabilities of that company. If incorporated management trusts include book profits in their earning statements, the result may be that such book profits will be offset by subsequent depreciation. In England investment trusts do not show profits from the sale of owned investments as earnings, and it has been concluded by some American accountants that the correct procedure for Amer-

INVESTMENT MANAGERS COMPANY

INVESTMENT TRUST FUND B

AGGREGATE NET VALUE OF SHARES

REPRESENTED BY OUTSTANDING CERTIFICATES, SEPTEMBER 30, 1927

		Total	Per 100 Shs.
Face Value of Certificates Outstanding		$1,944,800.00	
Undistributed Income		14,183.13	
Total		$1,958,983.13	$1,035.31
Unrealized Profit in Securities Owned:			
Market Value, September 30, 1927	$1,052,387.50		
Book Value, cost	984,488.11		
Total (Net)		67,899.39	35.88
AGGREGATE NET VALUE OF SHARES	*	$2,026,882.52	$1,071.19

* After deducting management compensation for the quarter ending September 30, 1927, payable October 1, 1927

Fig. 83: Aggregate Net Value of Shares of Investment Trust

ican Investment Trusts is to segregate such profits from other income and to hold them as reserves for writing down value of security holdings. While such a procedure has its counterpart in estate management, it would seem as if the investment trust were more properly to be classed with the banks, which under their state laws are authorized to include any profits actually received from the sale of securities or other property in determining the earnings for any period available for dividends on its shares. The English practice is the consequence of the tax laws of that country which do not require investment trusts to pay income taxes on realized profits if these profits are not written into the profit and loss account, or paid out as interest and dividends. Such profits are treated as reserves to be ap-

INVESTMENT MANAGERS COMPANY

INVESTMENT TRUST FUND B

SECURITIES OWNED

September 30, 1927

Number of Shares	Description of Security		Market Value Price	Market Value Amount	Book Value (cost)
	RAILROAD				
200	Atchison, Topeka & Santa Fe Ry. Co.	Common	192⅜	$38,475.00	$37,887.50
200	Chesapeake & Ohio Ry. Co.	"	205½	41,100.00	37,825.00
400	Chicago, Rock Island & Pacific Ry. Co.	"	108	43,200.00	44,487.50
500	Missouri Pacific R. R. Co.	Preferred	106	53,000.00	52,162.50
300	New York Central R. R. Co.	Common	168½	50,550.00	46,693.07
200	New York Central R. R. Co. "Rights"		6¾	1,350.00	956.93
300	Norfolk & Western Ry. Co.	Common	190	57,000.00	56,575.00
300	Union Pacific R. R. Co.	"	190½	57,150.00	56,025.00
	LIGHT, HEAT AND POWER				
400	American Gas & Electric Co.	Common	114¾	45,900.00	37,422.50
500	Electric Bond & Share Securities Corp.	"	79⅝	39,812.50	37,227.50
500	United Gas Improvement Co.	"	115¼	57,625.00	58,700.00
	PETROLEUM				
300	Prairie Pipe Line Co.	Common	181¾	54,525.00	54,300.00
400	Vacuum Oil Co.	"	126¾	50,700.00	51,025.00
	FOOD				
300	Borden Co.	Common	126	37,800.00	36,775.00
500	Shattuck (Frank G.) Co.	"	87⅛	43,562.50	40,000.00
	OTHERS				
400	Aluminum Co. of America	Common	98	39,200.00	30,047.50
300	American Smelting & Refining Co.	"	173¼	51,975.00	49,287.50
5	First National Bank of New York	"	3620	18,100.00	15,275.00
300	General Electric Co.	"	136½	40,950.00	37,525.00
500	Gillette Safety Razor Co.	"	108½	54,250.00	46,475.00
300	International Tel. & Tel. Corp.	"	155⅜	46,612.50	42,233.11
600	Kresge (S. S.) Co.	"	74½	44,700.00	33,717.50
40	Travelers Insurance Co.	"	1440	57,600.00	54,065.00
200	Union Carbide & Carbon Corp.	"	136¼	27,250.00	27,800.00
				$1,052,387.50	$984,488.11

Fig. 84: Statement of Securities Owned by Investment Trust

plied to meeting the expense of new issues and in writing down the cost of investments. The result is that it is impossible to ascertain from their income statement just what their earnings are.

In America, however, under the Federal Tax Laws it is necessary for corporations to report and pay taxes upon all sources of income, including realized profits.

Exemplification of Investment Trust Accounting Procedure

Some of the outstanding accounting phases of investment trusts can be gathered by the accountant in the presentation of the usual important forms and books of record that are used in practice. For example, an interesting set of forms and record books is used by the Atlantic and Pacific International Corporation, consisting of:

(A) Purchase Order (for the written authorization and confirmation of all investment purchases)

(B) Notice to Cancel Purchase (this is to serve notice of cancellation either in whole or part of purchase order)

(C) Notice of Purchase or Sale of Investment Securities (self explanatory)

(D) Sales Order (for confirmation of authorization to sell investment securities)

(E) Miscellaneous Forms (not illustrated). These mostly comprise records found in any ordinary business, such as purchase order for supplies, petty cash disbursement slip, etc.

Purchase and Sales Order Form

Printed forms are used for confirming orders given to brokers for the purchase and sale of securities. The details of the order are typed on the first of five multiple forms which are gummed at the top and carbon impressions made on the four attached forms. The first sheet which resembles the form of sales order shown in Fig. 86 and which is a facsimile of the form shown in Fig. 85 except that it does not have the captions and columnar rulings below the lower horizontal double ruling, is sent to the broker. It constitutes the actual purchase order. The second sheet, which also has no printed matter at the bottom, is the office file copy of the purchase order. The third sheet (Fig. 85) which bears captions for inserting the terms of purchase is the accounting department copy of the purchase order. The two other forms constitute the advice of purchase to be

ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION
68 WILLIAM STREET
NEW YORK No. 1576

PURCHASE ORDER
(ACCOUNTING DEPT. COPY)

Date

Gentlemen:

In confirmation of our order by of this date, you are hereby authorized to PURCHASE the following securities for our account. Delivery of these securities, or any part thereof, should be made to our custodian,

against payment therefor on the basis of prices specified below.

Your original purchase advice in detail should be sent directly to us and duplicate should accompany delivery of the securities to our custodian.

BOND PAR VALUE OR NUMBER OF SHARES	DESCRIPTION OF SECURITY	PRICE	ORDER GOOD UNTIL

THE ABOVE ORDER SHOULD BE EXECUTED AT OFFICIAL STOCK EXCHANGE PRICES

ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION

By.....

DATE OF PURCHASE	Bond par value or Number of Shares	PRICE	AMOUNT	COMMISSION	ACCRUED INTEREST	TOTAL AMOUNT	Date of Payment	Date Securities Received

Fig. 85: Purchase Order Form

sent to the custodian and office file copy and differs from Fig. 85 in that instead of the instructions to purchase, there is printed above the first horizontal ruling a recital of the purchase and request to custodian to accept delivery of the securities.

The system for handling sales orders is exactly the same as that described for handling purchase orders. The carbon impressions are taken on the attached four forms when the details of the sales order are typed on the form shown in Fig. 86. The respective copies have destinations corresponding to those enumerated for the purchase order and the subject matter is comparable to that of purchase orders except that it has to do with the sales instead of purchases.

In Fig. 87 is shown a form used for cancellation of an order for the purchase or for the sale of securities. The first sheet (Fig. 87) is delivered to the broker together with the second carbon sheet which constitutes the broker's file copy. The third sheet goes to the accounting department and the fourth and fifth sheets go to the custodian, the fifth sheet constituting the custodian's file copy.

Essential Records

The books of account that are usually required in an investment trust are listed below. These are the books that are used by the Atlantic and Pacific International Corporation. It is apparent that these books are designed especially for a business of this character.

1 — Cash Receipts Journal (separate book)
2 — Cash Disbursements Journal (separate book)
3 — Investments or Securities Ledger
4 — Monthly Accrual Income Register or Ledger
5 — General Journal
6 — General Ledger

Most of the above mentioned forms are reproduced in this chapter. In some instances a Voucher Register may also be used.

There are but three chief sources of income in an investment trust business. These are as follows:

(A) Interest Income
(B) Profit on Sales of Investment Securities
(C) Dividends from Stocks

All transactions are ordinarily carried out on a cash basis since all listed securities must be paid for immediately

ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION
68 WILLIAM STREET
NEW YORK
No. 1176

SALES ORDER

Date

Gentlemen:

In confirmation of our order by of this date, you are hereby authorized to SELL the following securities on the basis of the prices specified, and to pay the net proceeds of sale to our custodian,

against delivery to you of all or any part thereof.

Our custodian has been requested to make delivery upon presentation of your payment accompanied by duplicate sale bill. Please send original sale bill to us.

BOND PAR VALUE OR NUMBER OF SHARES	DESCRIPTION OF SECURITY	PRICE	ORDER GOOD UNTIL

THE ABOVE ORDER SHOULD BE EXECUTED AT OFFICIAL STOCK EXCHANGE PRICES

ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION

By_____

Fig. 86: Sales Order Form

Telephone John 5290 — CANCELLATION — Broker Copy

ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION
68 WILLIAM STREET
NEW YORK

Gentlemen

We hereby cancel the unfilled whole or part of our ORDER No. bearing date of and revoke the authority previously given our Custodian with respect thereto, as follows

BOND PAR VALUE OR NUMBER OF SHARES	DESCRIPTION OF SECURITY	PRICE	

(Carbon copy to Custodian)

Yours very truly,
ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION

Per
President, Secretary, Treasurer

Fig. 87: Cancellation of Order

in cash. The purchase of securities on "margin" is not to be countenanced in an investment trust.

All obligations whether contracted on credit terms or not are ordinarily cleared through the Cash Disbursement Journal. There is one deviation, however, from the strict cash basis, in that all interest on bonds and dividends accum-

ATLANTIC AND PACIFIC INTERNATIONAL CORPORATION
GENERAL JOURNAL VOUCHER

NUMBER 452
DATE November 1929
APPROVED J.H.B

ACCOUNT NO.		DEBIT	CREDIT
300	Accrued Interest on Bonds	50 00	
	Interest Earned on Bonds		50 00
	For monthly accrual of interest on 10-1% Hackensack Electric Power Corporation 6% on $/2,000		
	Note: One entry would be made each month for the total amount of all interest on bonds the details as to name of investment and indentured amount would appear below the entry as part of the explanation		

Fig. 88: General Journal Voucher

ATLANTIC AND PACIFIC IN
INVESTMEN

Interest or Dividend Rate 7%
Interest or Dividend Payable Jan 1 and July 1
Guaranteed By Government
U. S. Federal Income Tax
Country of Origin Tax

NAME OF
Saxon Pa
1st Mortgage

DATE 1930	ORDER NUMBER	CASH FOLIO	BOND OR CERTIFICATE NUMBERS	BOND PAR OR NUMBER OF SHARES: PURCHASES	SALES	BALANCE OWNED	PRICE PER BOND PAR OR PER SHARE: FOREIGN CURRENCY UNIT	EXCHANGE RATE	DOLLARS EQUIVALENT
Jan 1	710	C270	X2850	X000					95
17	676	C280	X2850		X000				99

Fig. 89: Left Hand Section of Investment Ledger

ERNATIONAL CORPORATION
TS LEDGER

SECURITY
Ellis Harks Inc.
S.F 7% Bonds

Country of Origin Germany
Currency Classification U.S. Dollars
Class Bonds
Group Government
Listed N.Y. Stock Exchange
Principal Matures Feb 1, 1945
Par Value per Share $ M
Custodian Receipt Equitable Trust

PRINCIPAL: PURCHASES	SALES (AT COST)	NET PROCEEDS	PROFIT OR LOSS	BALANCE OWNED	MEMORANDA OF INCOME RECEIVED: DATE RECEIVED	CASH FOLIO	BOND PAR OR NUMBER OF SHARES	AMOUNT RECEIVED
1905 00								
	1905 00	2035 00	130 00					

Fig. 89a: (Continued) Right Hand Section

ulated, after they have been declared are set up as accruals monthly. This income is recorded through these monthly entries which are made in the general journal and posted to the Monthly Accrual Income Register. This is in reality a subsidiary ledger, the accrued income accounts of which must tie in with the respective controlling accounts that appear in the general ledger.

Opening Entries

When the books of the trust are opened the first entry to be made would not differ from that of the ordinary type of business enterprise. The facts that relate to the organization of the company should be set forth in the opening entry:

(A) Authorized Capital—Number of Shares—Amount and Classes of Stock.

(B) Character of Organization—whether corporation, common law trust or joint stock company.

(C) The State under which organized.

The next step is to consider the method of how the trust sells its own stock or bonds. In some instances these are sold directly by the trust. If its issues are sold through an underwriter or banker this entry would be made as follows:

Cash	$190,000	
Commission on Sales of Stock	10,000	
Capital Stock Common		$200,000

To record cash received from Adams Finance Company for sale of 4000 shares of the capital stock of the company (par value $50 a share) turned over to the underwriters at price of 47½.

The entries that follow for the issuance of the stock would be the same as those in any other corporation. Where the corporation has a transfer agent or registrar the stock issuance is handled by its agents.

The accountant should watch closely to see that all securities purchased and sold have been properly accounted for. He should make certain that securities are:

(A) Actually received if the trust is the custodian of its investment securities.

(B) That a receipt is obtained for all securities that are delivered directly to the trust's depositary agent (usually a trust company or bank).

(C) That all cash received in settlement of sales has been duly acknowledged and credited by the depositary in the investment trust's account. This is where the trust has an agent handling its transactions.

(D) That all cash paid out for securities purchased when report of purchase is received, is duly supported by advice of agent, with proper documents attached; that security has been received and placed in vault for trust's account.

The activities as to the transactions of an investment trust may be best explained by setting up a "Chart" or Classification of Accounts which will serve to show the different kinds of transactions that an investment trust will ordinarily have.

CLASSIFICATION OF ACCOUNTS
OF AN INVESTMENT TRUST CORPORATION
(IN SKELETONIZED FORM)

Debit Accounts

Cash in Bank
Cash in Office
Bond Investments
Stock Investments
Investments—Miscellaneous
Call Loans Receivable
Time Loans Receivable
Accounts Receivable—Miscellaneous
Securities Sold but Not Delivered
Accrued Interest on Bond Investments
Accrued Dividends on Stock Investments
Accrued Dividends on Stock Investments—Miscellaneous
Unamortized Discount and Expense (On Capital Stock and Bonds)
Unamortized Organization Expenses
Office Furniture & Fixtures
Organization Expenses
Commissions on Sale of Capital Stock (and Bonds)
Discount on Sale of Capital Stock (and Bonds)
Other Expenses of Sale of Capital Stock (and Bonds)
Salaries and Wages (each group or item under its proper caption)
Administrative Expense (each item under its proper caption—such as legal, insurance, safekeeping of securities, auditing, etc.)
Fees of Transfer Agent and Registrar
Fees of Corporate Trustee (In case of bond issue)
Interest on Bank Loans
Tax Refunds, (Federal, State etc. paid by stockholders and bondholders and on which trust has agreed to make refund.
Amortization of Discount and Expense
Amortization of Organization Expense
Taxes—Federal
Taxes—State
Taxes—Miscellaneous
Dividends Declared on Capital Stock
Interest on Bonds Issued
Other accounts as may be required,

Credit Accounts

Loans Payable (Secured)
Loans Payable (Unsecured)
Accounts Payable—Miscellaneous
Dividends Payable (On own capital stock)
Securities Purchased but Not Received
Interest Accrued on Bonds
Interest Accrued on Borrowed Money Account
Dividends Accrued on Preferred Stock
Bonds Issued
Capital Stock Preferred
Capital Stock Common
Reserves for Appreciation of Investments
Reserves (others as required)
Paid In Surplus
Undistributed Profits (or undivided profits)
Interest Earned
Dividends Earned
Profits on Sales of Bonds
Profits on Sales of Stock Investments
Profits on Sales of Stock Investments—Miscellaneous
Other Accounts as May Be Required.

Where partial holdings of a trust are sold several methods of ascertaining the "cost" of investments in order to compute the profit may be employed. These are as follows:

1. By applying against the selling price of certain shares the cost price of any shares of that stock acquired at some preceding date.

2. By the application of particular shares to particular sales; each sale would call for the delivery of the identical stock described by certificate number.

3. By average cost, which represents the total cost of the shares held of a particular stock dividend by the total number of shares purchased.

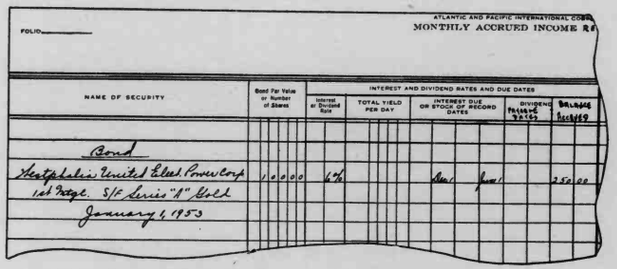
The accountant should also check carefully as to the method employed in computing the cost of stock where stock dividends have been received and also where the purchases of rights enter into the transaction.

The different methods for arriving at the cost of securities where stock dividends are concerned are illustrated in the chart submitted in Fig. 91.

The specimen transactions are illustrated in the books or records which are reproduced in this chapter.

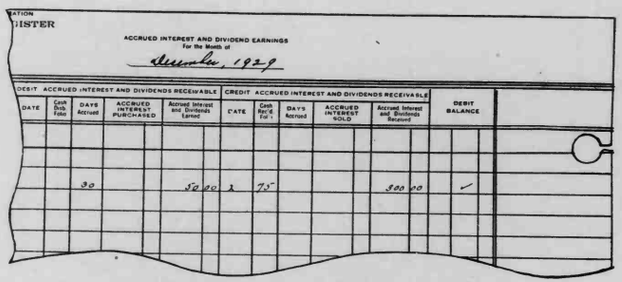
Method of Accounting for Rights to Subscribe to Additional Stock

When a corporation needs additional capital it often resorts to the method of granting to its stockholders the right to purchase stock at par or thereabouts. It grants the right to buy one new share at the designated price for


ATLANTIC AND PACIFIC INTERNATIONAL CORP.
FOLIO
MONTHLY ACCRUED INCOME R

NAME OF SECURITY	Bond Par Value or Number of Shares	INTEREST AND DIVIDEND RATES AND DUE DATES: Interest or Dividend Rate	TOTAL YIELD PER DAY	INTEREST DUE OR STOCK OF RECORD DATES	DIVIDEND PAYABLE DATES	BALANCE Receivable
Bond						
Hackensack United Elec. Power Corp. 1st Mtge. 5% Series "A" Gold January 1, 1953	100000	6%		Mar. June		250.00

Fig. 90: Monthly Accrued Income Ledger (Left Hand Section)


ATION
HISTER
ACCRUED INTEREST AND DIVIDEND EARNINGS
For the Month of December, 1929

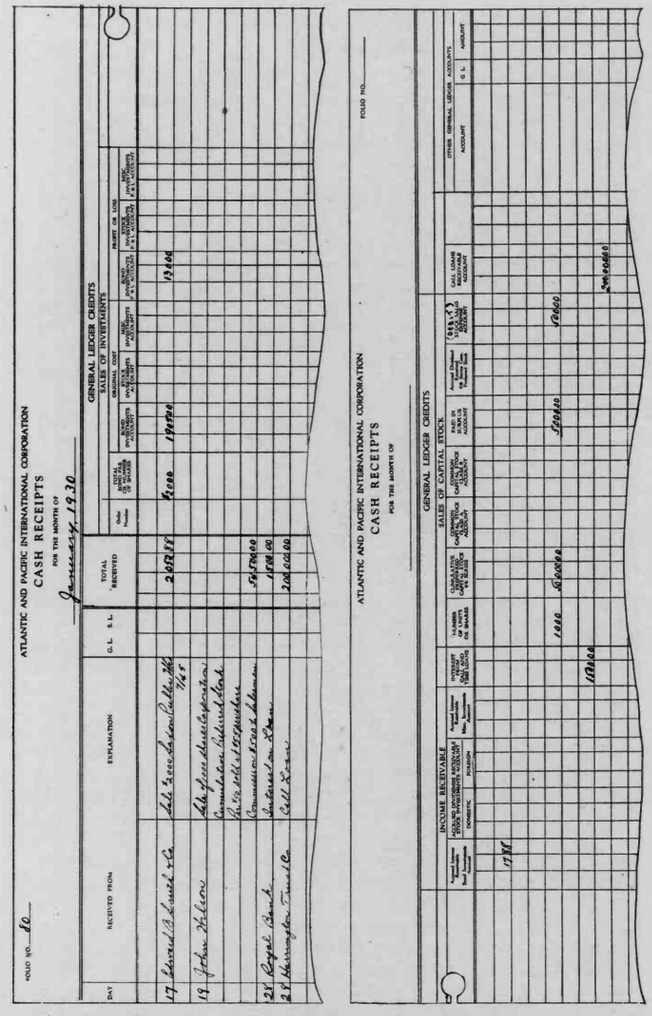
DEBIT ACCRUED INTEREST AND DIVIDENDS RECEIVABLE: DATE	Cash Div. Rate	DAYS Accrued	ACCRUED INTEREST PURCHASED	Accrued Interest and Dividends Earned	CREDIT ACCRUED INTEREST AND DIVIDENDS RECEIVABLE: DATE	Cash Rec'd For	DAYS Accrued	ACCRUED INTEREST SOLD	Accrued Interest and Dividends Returned	DEBIT BALANCE
		30		50 00	1	75			300 00	✓

Fig. 90a: (Continued) Right Hand Section

every 2, 3, 4, 5, or other specified numbers of shares held depending upon the number of shares outstanding and the amount of capital it is desired to raise.

Rights are not income. The privilege must be exercised before the time limit expires either by subscribing for the additional stock or by selling the rights to some one who will exercise the right to subscribe.

If the stockholder exercises his rights his proportionate equity in the company remains the same. If on the other



Figs. 90 b and c: Left and Right Hand Pages—Cash Receipts Journal

hand he sells his rights his proportionate equity is diminished after the new stock is issued.

Upon the receipt of rights the stockholder has his original stock and the rights, both of which have a value and the cost of both is the amount paid for the original stock.

The method which has been adopted and considered sound by the Treasury Department provides that the cost is split between the original stock and the rights on the basis of the current market value of each at the time the rights are issued.

To illustrate we will take the case of a stockholder who owns 100 shares purchased at $125 per share and receives rights to subscribe for one new share at par ($100) for every two shares he holds. The cost assigned to the original shares and to the rights respectively and the taxable profit on the rights would be determined as follows:

Cost of 100 shares owned and held @ $125	$12,500
Market value of one share ex-rights	$148
Market value of one right	22
Market value of one share and one right	$170

148/170 of $12,500 = $10,882.35, the cost assigned to the original shares.

22/170 of $12,500 = 1,617.65, the cost assigned to the rights.

$12,500.00

Proceeds from sale of 100 rights	$2,200.00
Cost of 100 rights	1,617.65
Profit	$ 582.35

After determining the cost of the rights the remaining cost of the original shares should stand on the books at $10,882.35. The amount of $582.35 should be picked up as profit.

If the cost of the original shares equalled the market value of the shares with rights no loss or gain would result, as shown on page 439.

1. May be credited to income at current market values.
   Note: Objectionable for various reasons—income not actually earned—tendency may be to increase the dividends of investment trust or declare dividends from profits not actually realized.
2. May be taken into income when actually sold and only for amount realized.
3. Regardless of whether sold or not they may be considered as a reduction of the average book value per share of the securities on which the stock dividends are issued.
   Example—

Stock owned and held	100 shares at cost $150 equals	$15,000
Stock Dividend	50 shares (no value assigned)	0
Total of shares	150 at cost of	$15,000

   Equals new cost price of $100 a share.
   When shares are sold the new cost price of $100 will be used.
4. When the stock is sold, the proceeds of the dividend from the sale may be divided between the income and the principal as follows:
   The earnings which have accrued to the corporation that declares the stock dividend should be calculated from the date when the investment trust made its original purchases up to the time when the stock dividend was received. The proportion of the proceeds of the stock dividends sold, divided as between income and principal, and based on number of shares involved in sale may be credited to income and the balance credited to principal.
   This method is impracticable because it is very difficult to determine the amount of earnings of corporation that issues the stock dividend.
5. Where stock dividends of different classes are received from the issuing corporation the following method of calculation of cost may be used:
   Based on proportion 100 shares of common stock held costing $150. Preferred dividend received of one share for every two shares of common stock.

2 shares stock owned and held—price based on current market of $150	$300
Stock dividend received—1 share preferred at current market of $100	100
Total Market Value.....	$400

   Cost assigned to common stock (old) of 100 shares.
   300–400ths of $15,000 equals $11,250 (divided by 100 shares) or $112.50 a share.
   Cost assigned to preferred stock (new) of 50 shares.
   100–400ths of $15,000 equals $3,750 (divided by 50 shares) or $75 a share.
   Both the preferred and the common shares would be costed out at the values as shown when sales of the two classes of stock are made.

Fig. 91: Various Methods of Accounting for Stock Dividends Received

148/170 of $17,000 = $14,800.00, the cost assigned to the original shares.
22/170 of 17,000 = 2,200.00, the cost assigned to the rights.

$17,000.00

Proceeds from sales of 100 rights	$2,200.00
Cost of 100 rights	2,200.00
No loss or gain.	—0—

However, the cost of the shares after the rights are sold should stand on the books at $14,800, sales of rights being credited to the cost of the shares.

When the cost of the original shares exceeds the market value of the shares with rights a loss would be sustained. For example if the cost of the shares was $18,000 the following would be the result:

148/170 of $18,000 = $15,670.59, the cost assigned to the original shares.
22/170 of 18,000 = 2,329.41, the cost assigned to the rights.

$18,000.00

Cost of 100 rights	$2,329.41
Proceeds from sales of 100 rights	2,200.00
Loss	$ 129.41

An actual loss occurs because of the high initial cost of the original shares. The cost of the original shares should be reduced in the books to $15,670.59 and the loss on rights should be charged off against profits.

In each case cited the new book value of the original stock is used as the basis of a profit or loss upon a subsequent sale.

A method approved by the Supreme Court of the United States provides for determining the cost of the rights by assuming that the rights were exercised and then averaging the new and old shares as follows:

Cost of 100 shares @ $125	$12,500.00
Cost of 50 new shares at subscription price $100.	5,000.00
Cost of 150 shares	$17,500.00
Average cost per share	116.67

Proceeds from sale of 100 rights to buy 50 new shares	$2,200.00
Subscription price of 50 new shares at $100	5,000.00
	$7,200.00
Deduct average cost of 50 shares at $116.67	5,833.50
Profit on rights	$1,366.50

The result is quite different from that obtained by apportioning the cost and the method is not considered a sound one.

Non-Stock Corporations

Institutions conducted without pecuniary benefits to members are usually organized under special acts, known in some states as membership corporation laws. Usually such non-profit companies do not issue stock to members. Among such institutions are hospitals, charitable organizations, clubs, etc.

A balance sheet and income statement typical of a social club are presented in Figs. 92 and 92a.

The typical items of income are:

1. Sales of soft drinks
2. Sales of cigars
3. Income from rental of billiard tables and letter boxes
4. Valet charges
5. Sales of playing cards
6. Income from dues
7. Income from Restaurant
8. Room Rentals

In the case of a golf club items 3 and 4 would be eliminated and the following items would be added:

(a) Transfer Fees
(b) Locker Rentals
(c) Greens Fees
(d) Golf Committee Revenue

An analysis of the income statement and balance sheet will enable the accountant to determine just what accounts are necessary for such an organization.

STAR ATHLETIC CLUB

BALANCE SHEET AS AT

DECEMBER 31, 1929

ASSETS

Cash in Banks and on Hand		$ 26,329.11
Due from Members:		
House Charges - Members' Ledger	$ 46,133.80	
Dues - Dues' Ledger	1,375.50	47,509.30
Supplies on Hand:		
Soft Drinks	15,867.34	
Cigars	14,736.43	
Cards	225.50	
Restaurant Stores	1,585.27	32,414.54
Art Collection	20,245.86	
Library	4,000.00	24,245.86
Improvements - Engine Room		4,000.00
Furniture & Fixtures	35,000.00	
Less Reserve for Depreciation	10,500.00	24,500.00
Insurance Paid in Advance	1,824.70	
Prepaid Expenses	434.54	2,259.24
Real Estate:		
Land	265,000.00	
Building	735,000.00	
	1,000,000.00	
Less Reserve for Depreciation on Buildings	65,850.00	934,150.00
TOTAL ASSETS		$1,095,408.05

LIABILITIES AND CAPITAL

U. S. Government War Tax on Dues and Fees		424.00
Notes Payable		41,000.00
Accounts Payable		23,937.71
Dues Paid in Advance		500.00
F. A. Driscoll-First Mortgage	$ 225,000.00	
Yantic Trust Company Bonds-Second Mortgage	110,000.00	335,000.00
Surplus - January 1, 1929	692,802.50	
Add Profit for Year 1929	1,743.84	
Surplus - December 31, 1929		694,546.34
TOTAL LIABILITIES AND CAPITAL		$1,095,408.05

Fig. 92: Balance Sheet of Membership Corporation

STAR ATHLETIC CLUB

STATEMENT OF INCOME, PROFIT AND LOSS

FOR YEAR ENDED DECEMBER 31, 1929

Gross Income		
Department Income:		
Soft Drinks	$ 13,709.56	
Cigars	14,720.42	
Billiards, Letter Boxes, Cards, Valet, etc.	8,630.24	
Restaurant (Profit)	688.90	
Total Department Income		$ 37,749.12
Income:		
Rooms	63,372.81	
Dues	137,165.19	
Initiation Fees	12,500.00	
Interest	2,125.24	215,163.24
Total Income		252,912.36
Expenses:		
Salaries and Wages	109,864.72	
General House Expense	11,729.10	
Telephone	624.33	
Printing and Stationery	5,794.21	
Postage	2,418.75	
Insurance and Storage	1,200.38	
Entertainment and Collections	5,223.74	
Membership Committee	425.00	
Library Committee	2,189.10	
Art Committee	324.64	
Laundry	5,781.29	
Kitchen, Fuel and Gas	1,921.82	
China, Glass, Silver and Linen	3,776.86	
Uniforms	2,429.57	
License Tax	1,680.00	
Water Tax	1,832.25	
Interest on Mortgages and Bonds	13,510.00	
Members Accounts Charged Off	1,223.29	
Engine Room - Maintenance	16,429.11	
Repairs and Renewals	2,746.01	
Repairs to Boiler Room	4,117.65	
Repairs and Renewals to Refrigerating Plant	4,300.00	
Depreciation - Furniture	5,250.00	
Depreciation - Building	22,050.00	
Taxes	17,326.70	
Total Expenses		251,168.52
Excess of Income over Expenses		$ 1,743.84

Fig. 92a: Statement of Income, Profit and Loss of Membership Corporation

Personal Service Corporation

An outstanding example of a personal service corporation is found in the incorporated advertising agency. A specimen balance sheet and income statement with an analysis of operating expenses of an advertising service corporation are shown in Figs. 93, 93a and 93b.

An advertising agency usually renders service on strictly commission or fee basis, although its charter may permit owning and operating a printing plant or performing other acts consistent with the purposes of the business.

Income principally arises from the following sources:

1. Commissions on sales of display advertising space in newspapers, national magazines, trade papers, etc.

2. Production charge. This item may consist of work done by the agency staff and/or work done by others which is billed the client with a commission added, for such items as art work, engravings, mats, dealer helps, etc.

3. Direct mail advertising campaigns.

4. Service fees.

The income accounts should be set up to accumulate clearly the respective classes of revenue. Conversely the cost of each class of income must be carefully segregated—for example, Income Account, Sales of Space—Contra, Cost of Space; to this account is charged the cost of all advertising space ordered from newspapers or periodicals upon clients' purchase orders.

The cost of space is usually billed the agency at the published rate less 15%. The agency bills the client at the published rate. By segregating the cost of space and the sales of space, at the end of any period the income statement clearly shows the profit. However, it is more important to segregate the costs and the selling prices of engravings and similar items where the percentage of overload is not so clearly defined, in order to determine just which classes of sales are profitable.

The following books of account are used in an advertising agency of average size:

1. Cash Receipts Journal
2. Cash Disbursements Journal
3. Purchase Journal
4. Sales Journal
5. General Journal
6. General Ledger

MARSHALL ADVERTISING AGENCY

BALANCE SHEET AS AT

SEPTEMBER 30, 1929

ASSETS		
Cash in Banks and on Hand		$ 10,226.60
Notes Receivable		3,526.58
Accounts Receivable	$ 34,380.75	
Less Reserve for Bad Debts	1,200.00	33,180.75
Investments		6,557.12
Furniture and Fixtures	2,690.07	
Less Reserve for Depreciation	345.50	2,344.57
Goodwill		4,930.00
TOTAL ASSETS		$ 60,765.62
LIABILITIES AND CAPITAL		
Notes Payable		$ 2,362.65
Accounts Payable		21,199.90
Common Stock Authorized	50,000.00	
Less Unissued	20,070.00	
Issued and Outstanding		29,930.00
Surplus at January 1, 1929	3,436.01	
Add Profit to September 30, 1929	3,837.06	7,273.07
TOTAL LIABILITIES AND CAPITAL		$ 60,765.62

Fig. 93: Balance Sheet of Personal Service Corporation

MARSHALL ADVERTISING AGENCY

STATEMENT OF INCOME, PROFIT AND LOSS

FOR NINE MONTHS ENDED SEPTEMBER 30, 1929

	8 Months	September	9 Months to date
Sales of Space, Direct Mail Order Advertising, etc.	$138,058.48	$25,777.56	$163,836.04
Less: Cost of Sales	118,899.61	22,228.46	141,128.07
	19,158.87	3,549.10	22,707.97
Less: Selling Commissions	455.94	150.00	605.94
	18,702.93	3,399.10	22,102.03
Plus: Commission and Fees Earned	2,015.19	345.20	2,360.39
Gross Profit	20,718.12	3,744.30	24,462.42
Less: Operating Expenses (Schedule No.1)	16,882.46	2,602.24	19,484.70
Operating Profit	3,835.66	1,142.06	4,977.72
Less: Other Expenses (Schedule No.2)	778.82	361.84	1,140.66
Profit for Period	$ 3,056.84	$ 780.22	$ 3,837.06

MARSHALL ADVERTISING AGENCY

STATEMENT OF OPERATING EXPENSES

FOR NINE MONTHS ENDED SEPTEMBER 30, 1929

	8 Months	September	9 Months to date
Salaries - Administrative	$ 3,500.00	$ 500.00	$ 4,000.00
Salaries - Sales	1,560.00	160.00	1,720.00
Salaries - Artists and copy	5,460.00	560.00	6,020.00
Salaries - Other	2,141.67	220.00	2,361.67
Rent	1,600.00	200.00	1,800.00
Light	121.78	15.21	136.99
Telephone and Telegraph	885.26	150.11	1,035.37
Artists Materials	101.04	8.20	109.24
Postage	122.08	21.56	143.64
Stationery	301.92	78.54	380.46
Messenger Service	240.13	31.91	272.04
Art Work	--	60.00	60.00
Exploitation	--	355.00	355.00
Miscellaneous	368.38	32.91	401.29
Legal Fees	125.00	100.00	225.00
Auditing Fees	225.00	100.00	325.00
Taxes	130.20	9.00	139.20
Total	$16,882.46	$2,602.24	$19,484.70

Exhibit "B" - Schedule No. 1

	8 Months	September	9 Months to date
Other Expenses and Income			
Discounts Allowed	$ 488.60	$ 158.20	$ 646.80
Interest and Bank Charges	412.30	254.86	667.16
	900.90	413.06	1,313.96
Less Discounts Earned	122.08	51.22	173.30
Net Other Expenses	$ 778.82	$ 361.84	$ 1,140.66

Exhibit "B" - Schedule No. 2

Figs. 93 a and b: Statement of Income, Profit and Loss, and Statement of Operating Expenses

Sub-Ledgers

(a) Accounts Receivable Ledger
(b) Accounts Payable Ledger
(c) Commissions Payable Ledger
(d) Commissions and Fees Receivable Ledger

A study of the foregoing and a careful scrutiny by the accountant of the typical balance sheet and income statement of an average advertising agency submitted herewith will reveal the fundamental principles to be followed in setting up the accounts of such a business.

Real Estate Corporations

An incorporated real estate business may embrace various functions, and the profits of an enterprise of this type may arise from a number of different sources. Some companies specialize in certain fields of activity, whereas others follow what might be termed a general real estate business. Regardless, however, of the particular field in which a real estate corporation may operate, the principal sources of profits may be summed up as follows:

1. Profits arising from sales of real property
   (a) From sales of unimproved land
   (b) From sales of buildings (including the land)
2. Profits arising from rents on owned property
3. Miscellaneous Profits
   (a) Broker, dealer or agency commissions
   (b) Use of land
   (c) From particular use of land, such as mining, planting of crops, etc.
   (d) Earnings from use of money loaned on real estate
   (e) Earnings obtained and employed with money borrowed, secured by real estate

The accountant who studies the items of expense that appear in the statement of profit and loss, and the items of the assets and liabilities in the balance sheet shown in Fig. 94 and having in mind the types of profit enumerated, can set up the books in a manner to furnish information to record the transactions of a particular business of this character.

THE MOHEGAN LAND COMPANY
BALANCE SHEET AS AT
DECEMBER 31, 1929

ASSETS			
Real Estate, at cost		$ 935,642.71	
Less Options Granted		11,000.00	$ 924,642.71
Mortgages Receivable, Principal		60,000.00	
Mortgage Expenses	$ 729.35		
Mortgage Insurance	353.27		
Mortgage Interest	1,571.30		
Mortgage Taxes	401.85	3,055.77	
Total Mortgages Receivable		63,055.77	
Mortgages in Settlement	7,250.00		
Less Mortgage Deficiency	2,750.00	4,500.00	
Contracts Outstanding		758,321.36	
Net Total Time Sales Outstanding			825,877.13
Cash on Hand and in Banks			17,384.65
Notes Receivable			3,000.00
Equipment:			
Automobiles		6,245.50	
Furniture and Fixtures		5,317.49	
		11,562.99	
Less Reserve for Depreciation		4,717.50	6,845.49
TOTAL ASSETS			$ 1,777,749.98
LIABILITIES AND CAPITAL			
Driscoll, F.A. - Trustee		$ 409,864.57	
Mortgages Payable, Principal		355,219.08	
Mortgages Payable, Interest		320.24	
Contracts Payable, Unpaid purchase money on properties included in Real Estate Account		10,000.00	
Total Real Estate Liabilities			$ 755,403.89
Notes Payable to Banks		100,000.00	
Notes Payable to Others		20,000.00	
Accounts Payable		3,521.25	
Total Current Liabilities			123,521.25
Purchase Contingent Liability (due only on completion of sales included in Time Sales Contract account)			
Waverly		2,200.00	
Osage Gardens		4,100.00	
Lyndon		3,550.00	
Quenemo		3,100.00	12,950.00
Total Liabilities other than Capital Stock			891,875.14
Capital Stock Authorized		500,000.00	
Less Unissued		200,000.00	
Issued and Outstanding			300,000.00
Total Liabilities and Capital			1,191,875.14
Reserve Surplus and Undivided Profits:			
Uncompleted Buildings		1,250.00	
Commissions - Lebo		1,580.00	
Expenses - Lebo		1,500.00	
Maxon		67,000.00	
Reserve Profits		380,359.60	
Surplus to January 2, 1929		76,615.50	
Profit for Year 1929		57,769.74	
Total Reserves, Surplus and Undivided Profits			585,874.84
TOTAL LIABILITIES, CAPITAL SURPLUS AND UNDIVIDED PROFITS			$ 1,777,749.98

Fig. 94: Balance Sheet of Real Estate Corporation

As to the different books of record to be used, the structure of these would depend largely upon the size and special type of transactions to be recorded. The following list of the general books of account used in a business of average size will afford the accountant an idea as to the scope of these records:

(1) Cash Receipts Journal
(2) Cash Disbursements Journal
(3) General Journal
(4) General Ledger

Sub-Ledgers

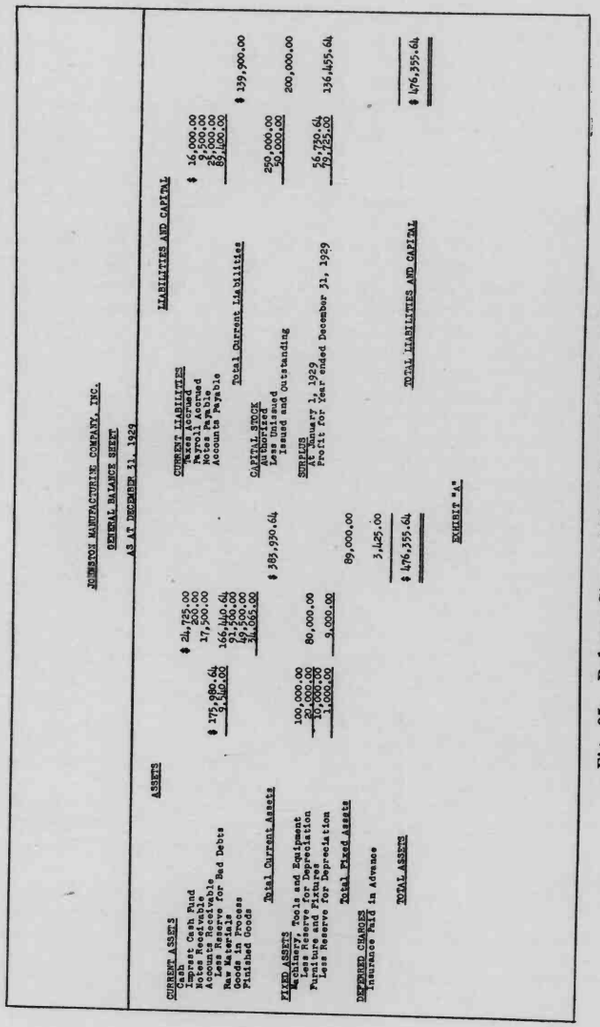
(a) Mortgages Payable Ledger
(b) Mortgages Receivable Ledger
(c) Commissions Payable Ledger
(d) Brokerage Commissions Earned Ledger
(e) Customers' Ledger
(f) Rent Income Ledger
(g) Property Record Ledger

The above mentioned books represent, of course, the more important books of record. In certain instances other records would also be used such as are found in the ordinary types of business. The real estate business requires certain special forms for contract purposes, leasing of property, etc., which are more or less standard in design.

Manufacturing Corporations

The operations of a manufacturing corporation are usually of such a nature as to require a very exacting check on the accounting procedures. The system to cover the various transactions of an enterprise which merely buys and sells its merchandise is comparatively simple. All that is required is a complete set of books, which is kept by the general office. In a manufacturing enterprise not only must the general office transactions be recorded, but incidentally it is necessary to ascertain the cost of the products which are manufactured. In order to carry out a proper system of cost finding, it is necessary to understand the particular kind of products that the company manufactures.

Where diversified products are manufactured, a study of the particular operations must be carefully made so as to make certain that the system established will not only insure accuracy of cost, but economy of administration in clerical work.



ROBINSON MANUFACTURING COMPANY, INC.
GENERAL BALANCE SHEET
AS AT DECEMBER 31, 1929

ASSETS

CURRENT ASSETS			
Cash		$ 24,728.00	
Interest Cash Fund		500.00	
Notes Receivable		17,500.00	
Accounts Receivable	$ 179,280.64		
Less Reserve for Bad Debts	3,340.00	166,440.64	
Raw Materials		52,500.00	
Goods in Process		49,500.00	
Finished Goods		34,662.00	
Total Current Assets			$ 385,930.64
FIXED ASSETS			
Machinery, Tools and Equipment	100,000.00		
Less Reserve for Depreciation	20,000.00	80,000.00	
Furniture and Fixtures	10,000.00		
Less Reserve for Depreciation	1,000.00	9,000.00	
Total Fixed Assets			89,000.00
DEFERRED CHARGES			
Insurance Paid in Advance			1,425.00
TOTAL ASSETS			$ 476,355.64

LIABILITIES AND CAPITAL

CURRENT LIABILITIES		
Taxes Accrued	$ 16,000.00	
Payroll Accrued	9,500.00	
Notes Payable	25,000.00	
Accounts Payable	89,400.00	
Total Current Liabilities		$ 139,900.00
CAPITAL STOCK		
Preferred Stock	290,000.00	
7% Cumulative		
Par Value		
Issued and outstanding	290,000.00	
Common Stock	200,000.00	
SURPLUS		
As January 1, 1929	56,730.64	
Profit for Year ended December 31, 1929	79,725.00	
		336,455.64
TOTAL LIABILITIES AND CAPITAL		$ 476,355.64

EXHIBIT "A"

Fig. 95: Balance Sheet of Manufacturing Corporation

The cost of manufacture usually embraces three distinct elements:

1. Materials
2. Direct or productive labor
3. Factory overhead

The first two elements comprise what is called "prime cost." The third element consists of indirect labor and all other factory expenses which arise in connection with the operation of the factory, but which are merely incidental to the actual production of the product itself. The factory overhead is charged to the product under some prearranged plan and is distributed in accordance with a method which best meets the need of a particular type of manufacturer.

The general office books should serve as a check on all the factory accounts and operations. This holds true regardless of whether the cost records are kept wholly or in part on the general office books. In some instances it is absolutely essential that a separate set of cost records be kept by the factory. In any event all the factory accounts should tie in with the established controlling accounts which appear in the general ledger.

The accountant must study the requirements of a manufacturing business as to the special structure of the financial statements (balance sheet and statement of profit and loss) and see that proper classifications are provided to cover the various divisions of manufacture. The accounts must be set up to produce all the information necessary to the preparation of these statements. Supplementary statements or supporting schedules would show details of factory operations as comprehensively set forth as the magnitude of the operations will require.

The Balance Sheet, Statement of Income, Profit and Loss and Statement of Cost of Sales of a Manufacturing Company are shown in Figs. 95, 96 and 97 respectively.

Accurate information as to costs, so as to determine whether costs are decreasing or increasing, is an essential managerial guide in establishing policies of manufacturing and sales.

In arranging the accounting procedure attention must be given to the segregation of sales and administrative expenses, so that the respective costs of these branches of the business may be presented separately and correctly. It has been found desirable to show percentages of expense of operations and sales as an aid to management.

JOHNSTON MANUFACTURING COMPANY, INC.

STATEMENT OF INCOME, PROFIT AND LOSS

FOR YEAR ENDED DECEMBER 31, 1929

Sales		$ 782,000.00
Less Sales Returns and Allowances		22,575.00
Net Sales		759,425.00
Cost of Sales		425,750.00
Gross Profit on Sales		333,675.00
Selling Expenses		
Salaries - Executives	$ 12,000.00	
Salaries - Salesmen	25,000.00	
Commissions of Salesmen	32,500.00	
Traveling and Entertaining	10,000.00	
Advertising	58,400.00	
Rent and Light	18,500.00	
Telephone and Telegraph	3,100.00	
Miscellaneous	10,450.00	
Total Selling Expenses		169,950.00
Selling Profit		163,725.00
Administrative Expenses		
Salaries - Officers	32,000.00	
Salaries - Clerks	15,400.00	
Rent	4,000.00	
Stationery and Printing	2,950.00	
Insurance	2,725.00	
Telephone and Telegraph	1,850.00	
Miscellaneous	3,975.00	
Total Administrative Expenses		62,900.00
Income from Operations		100,825.00
Sundry Income		
Interest Received	2,510.00	
Cash Discounts on Purchases	6,750.00	
Total Sundry Income		9,260.00
Total Income from Operations		110,085.00
Sundry Charges		
Interest Charges	1,950.00	
Cash Discount on Sales	11,410.00	
Depreciation on Furniture and Fixtures	1,000.00	
Total Sundry Charges		14,360.00
Net Income for Period		95,725.00
Profit and Loss Charges		
Income Taxes *		16,000.00
Net Profit - Transferred to Surplus		$ 79,725.00

* Estimated Accrual for Federal and State Taxes

EXHIBIT "B"

Fig. 96: Statement of Income and Profit and Loss of Manufacturing Corporation

JOHNSTON MANUFACTURING COMPANY, INC.

STATEMENT OF COST OF SALES

FOR YEAR ENDED DECEMBER 31, 1929

Direct Materials Consumed:		
Inventory January 1, 1929 (at beginning)	$ 82,450.00	
Purchases (Add)	164,800.00	
	247,250.00	
Inventory at December 31, 1929 (at end)	91,500.00	
Total Direct Materials Consumed		$ 155,750.00
Direct Labor Consumed		125,700.00
Manufacturing Expenses Liquidated		
Indirect Materials and Supplies	19,800.00	
Indirect Labor	25,500.00	
Rent	18,600.00	
Light, Heat and Power	16,780.00	
Depreciation (for all factory equipment)	10,000.00	
Insurance	8,950.00	
Repairs	5,725.00	
Miscellaneous	24,750.00	
Total Manufacturing Expense		130,005.00
Total Manufacturing Charges		411,455.00
Add: Inventory Work in Process, January 1, 1929		35,410.00
Total Goods Processed		446,865.00
Less: Inventory Work in Process, December 31, 1929		49,500.00
Cost of Goods Manufactured		397,365.00
Add: Inventory Finished Goods, January 1, 1929		62,450.00
Total Goods Available for Sale		459,815.00
Less: Inventory Finished Goods, December 31, 1929		34,065.00
Cost of Sales (Per Exhibit "B")		$ 425,750.00

EXHIBIT "B"

SCHEDULE NO. 1

Fig. 97: Statement of Cost of Sales of Manufacturing Corporation

Trading Corporations

The trading corporation as its name implies is primarily organized for the purchase and sale of merchandise. Typical of such corporations are the so-called jobbing and distributing corporations. The merchandise which the trading corporation sells is usually bought directly from the manufacturer. In certain instances, however, the merchandise may be sold to the trader or jobber by a distributor who receives it from the manufacturer.

There are many types of trading corporations selling particular kinds of merchandise. A large number of these operating as jobbers work under a franchise agreement granted by the manufacturer or in some cases received from the distributor.

Manufacturers of nationally advertised products, as a part of their policy of maintaining close cooperation with trading corporations handling their products, frequently recommend methods by which the accounts of the trading concern should be handled. Wherever such standard accounting systems are introduced it is necessary, of course, for the accountant to recognize this fact and to set up his books so that the information requested by the manufacturer can be furnished without difficulty or expense by the jobber.

The accounting records for any trading business would be fairly representative of the average complete set of books used. Special attention should be given to the sales income of a business of this character. Where many classes of goods are sold it might be desirable under certain circumstances to provide suitable classifications for the segregation of the principal classes of products in respect to which cost of sales information should be obtained. This is for the purpose of determining the amount of profit made on particular lines of merchandise and to avoid pushing the distribution of unprofitable items. A specimen balance sheet and Statement of Income, Profit and Loss of a trading corporation are shown in Figs. 98 and 99 and the statement of Sales, Cost of Sales and Gross Profits of the same company is shown in Fig. 99a.

Financial Corporations

Under the broad heading Financial Corporations may be grouped all corporations whose sole or principal operations pertain to Finance. This somewhat arbitrary category would therefore embrace Building and Loan Associations, Small Loan Companies, Credit Finance Companies, Banks, Trust Companies, and other corporations engaged in the loaning of funds.

ROCHESTER TRADING CORPORATION

CENERAL BALANCE SHEET

AS AT JUNE 30, 1929

ASSETS			LIABILITIES AND CAPITAL		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash in Bank and Office		$ 87,450.00	Taxes Accrued		$ 8,500.00
Notes Receivable		59,750.00	Notes Payable - Banks		40,000.00
Accounts Receivable	$ 135,950.00		Notes Payable and Interest Accrued - Trade		23,400.00
Less Reserve for Bad Debts	9,450.00	126,500.00	Accounts Payable		252,100.00
Merchandise Inventory		247,425.00	Total Current Liabilities		$ 360,200.00
Investments in Securities		31,900.00			
Total Current Assets		$ 556,925.00	CAPITAL STOCK - ISSUED		
CAPITAL ASSETS			Preferred 6% Cumulative (500 Shares Par Value $100.)		50,000.00
Automobiles	48,000.00		Common (4000 Shares Par Value $50.)		100,000.00
Less Reserve for Depreciation	18,000.00	30,000.00	Total Capital Stock Issued and Outstanding		150,000.00
Furniture and Fixtures	30,000.00				
Less Reserve for Depreciation	6,000.00	24,000.00	SURPLUS		
Total Capital Assets		54,000.00	At January 1, 1929		55,828.00
			Profit for Six Months to June 30 1929		68,122.00
DEFERRED CHARGES			Total Surplus		123,950.00
Advertising Paid in Advance		9,500.00			
Insurance Premium Advances		3,725.00			
Total Deferred Charges		13,225.00			
TOTAL ASSETS		$ 634,150.00	TOTAL LIABILITIES AND CAPITAL		$ 634,150.00

EXHIBIT "A"

Fig. 98: Balance Sheet of Trading Corporation

ROCHESTER TRADING CORPORATION

STATEMENT OF INCOME, PROFIT AND LOSS

FOR SIX MONTHS' PERIOD, COMPARATIVE YEARS OF 1929 AND 1928

	AT JUNE 30, 1929		AT JUNE 30, 1928	
Sales	$1,425,000.00		$1,150,000.00	
Less Returns	45,725.00		34,850.00	
Net Sales		$1,379,275.00		$1,115,150.00
Deductions from Sales:				
Allowances	18,425.00		19,272.00	
Transportation Outward	22,475.00		18,465.00	
Total Deductions from Sales		40,900.00		37,737.00
Income from Sales		1,338,375.00		1,077,413.00
Cost of Sales:				
Inventory at beginning	297,540.00		174,350.00	
Purchases	1,045,215.00		898,675.00	
	1,342,755.00		1,073,025.00	
Inventory at end	267,305.00		226,047.00	
Total Cost of Sales		1,075,450.00		846,978.00
Gross Profit (Schedule No. 1)		262,925.00		230,435.00
Selling Expense				
Salaries of Sales Director	18,000.00		18,000.00	
Salaries of Salesmen	20,000.00		22,574.00	
Commissions of Salesmen	10,425.00		11,854.00	
Traveling and Entertaining	9,435.00		8,432.00	
Advertising	22,725.00		18,050.00	
Rent and Light	14,300.00		14,210.00	
Telephone and Telegraph	5,725.00		6,980.00	
Miscellaneous	6,435.00		5,475.00	
Total Selling Expense		107,045.00		105,575.00
Selling Profit		155,880.00		124,860.00
Administrative Expense				
Salaries of Officers	25,000.00		25,000.00	
Salaries of Clerks	12,900.00		12,450.00	
Rent and Light	6,500.00		6,500.00	
Telephone and Telegraph	2,785.00		3,450.00	
Stationery and Printing	2,942.00		3,720.00	
Credit Report Service	5,725.00		4,870.00	
Postage	1,350.00		1,290.00	
Miscellaneous	13,725.00		4,050.00	
Total Administrative Expense		70,927.00		61,140.00
Income from Operations		84,953.00		63,720.00
Other Income				
Interest Earned	$ 2,984.00		$ 2,100.00	
Dividends on Stocks Received	1,000.00		1,800.00	
Cash Discount on Purchases	15,450.00		12,940.00	
Total Other Income		19,434.00		16,840.00
Total Income on Operations		104,387.00		80,560.00
Deductions from Income				
Interest Charges	4,540.00		5,725.00	
Cash Discount on Sales	24,200.00		21,850.00	
Insurance	5,725.00		5,950.00	
Total Deductions from Income		34,465.00		33,505.00
Net Income from Operations		69,922.00		47,055.00
Profit and Loss Credits				
Profit on Sale of Securities	3,400.00		4,750.00	
Profit on Sale of Real Estate	9,850.00		--	
Total Profit and Loss Credits		13,250.00		4,750.00
Profit for Period		83,172.00		51,805.00
Profit and Loss Charges				
Provision for Depreciation of Furniture and Fixtures	2,000.00		2,000.00	
Provision for Depreciation of Automobiles	6,000.00		6,000.00	
Provision for Losses on Accounts Receivable	7,050.00		4,500.00	
Total Profit and Lose Charges		15,050.00		12,500.00
Net Profit for Period (Transferred to Surplus)		$68,122.00		$39,305.00
Percent on Net Sales				
Deductions from Sales	3.0%			3.3%
Cost of Sales	78.0%			76.0%
Selling Expense	7.8%			9.5%
Administrative Expense	5.1%			5.5%
Other Income	• 1.4%			• 1.5%
Deductions from Income	2.5%			3.0%
Profit and Loss Charges (Net)	1%			.7%
Net Profit	4.9%			3.5%
	100.0%			100.0%

• Red figures.

EXHIBIT "B"

Fig. 99: Statement of Income and Profit and Loss

ROCHESTER TRADING CORPORATION

STATEMENT OF SALES, COST OF SALES AND GROSS PROFIT

FOR SIX MONTHS ENDED JUNE 30, 1929

Merchandise Classes, etc.	Net Sales and Deductions from Sales	Cost of Sales	Gross Profit	% Gross Profit on Sales
Merchandise - "A"	$ 375,000.00	$ 302,500.00	$ 72,500.00	19.3%
Merchandise - "B"	250,000.00	178,430.00	71,570.00	28.6%
Merchandise - "C"	198,725.00	152,300.00	46,425.00	23.4%
Merchandise - "D"	460,000.00	368,725.00	91,275.00	19.8%
Merchandise - "E"	95,550.00	73,495.00	22,055.00	23.1%
Allowances	* 18,425.00	--	* 18,425.00	--
Transportation Outward	* 22,475.00	--	* 22,475.00	--
Totals	$1,338,375.00	$1,075,450.00	$262,925.00	19.6%

* These are red figures

EXHIBIT "B"

SCHEDULE NO. 1

Fig. 99a: Statement of Sales, Cost of Sales and Gross Profit

Of the corporations named the building and loan association occupies a highly specialized field and is formed pursuant to regulations of special laws. Although each member is a stockholder, the capital of the association is represented not by the par value of the capital stock but by the combined savings of the members, together with aggregate interest and premiums collected from borrowers. Systems vary with the requirements of state laws and the special plan of operations permitted by statutes. It is obviously impractical to present in these pages specimen systems and reports of these companies.

Of the other corporations enumerated the financial statement of a bank is representative of statements of trust companies, and the statement of one type of finance company is fairly representative of other types. It would seem therefore that a specimen report of a bank and of a small Loan Company would best illustrate the accounting requirements of companies of similar character.

Financial Service Companies

A branch of financial service which has developed to large proportions during the past fifteen or twenty years is the small loan business. Comparable to this service is the business of loaning on accounts receivable, which is now principally carried on by incorporated concerns. Although there are differences in accounting systems imposed by the peculiar circumstances surrounding the handling of their respective transactions, the typical statement of a corporation engaged in either one of these businesses would closely resemble a typical statement of a corporation engaged in the other business. Therefore it will serve as a general illustration of such corporations to present the balance sheet and summary of operations of a corporation handling small loans, loans on accounts receivable, and other financing operations. (See Figs. 100 and 101.)

Banks

The familiar classifications of banks are banks of deposit, savings banks and trust companies. These institutions are incorporated under special acts, are subject to periodical examinations by state officers and are compelled to report to the state bank commissioners, who specify what information must be presented in the report. In Figs. 102 and 103 are presented specimen statements of Resources and Liabilities and of Income and Profit and Loss of a National Bank and Trust Company.

A TYPICAL FINANCE CORPORATION

GENERAL BALANCE SHEET

AS AT DECEMBER 31, 1929

ASSETS			LIABILITIES AND CAPITAL		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash Resources	$ 13,500,000.		Notes Payable	$ 38,500,000.	
Notes and Contracts Receivable (Retail and wholesale auto lien notes and industrial equipment receivables)	88,000,000.		Accounts Payable	1,000,000.	
			Accrued Interest Payable	800,000.	
Marketable Securities	1,500,000.		Dividends Payable	400,000.	
Accounts and Dividends Receivable	1,000,000.		Unsecured Short Term Gold Notes	15,000,000.	
Total Current Assets		$ 104,000,000.	Total Current Liabilities		$ 55,700,000.
OTHER ASSETS			OTHER LIABILITIES		
Repossessed Automobiles and Equipment at Depreciated Realizable Values	100,000.		5% Serial Gold Bonds	4,000,000.	
Advances to Officers and Employees	100,000.		10 Year 6% Debentures	15,000,000.	
Investments in Subsidiary Companies	2,000,000.		Total Other Liabilities		19,000,000.
Furniture and Fixtures, less Depreciation	100,000.		DEFERRED CREDIT		
Total Other Assets		2,300,000.	Unearned Income		2,500,000.
DEFERRED CHARGES			RESERVES		
Interest and Discount Prepaid, etc.		700,000.	Dealers Participating Loss Reserve	1,300,000.	
			Reserve for Possible Losses	1,000,000.	
			Contingent Reserve (Margin due Customers only when Receivables are Collected)	2,000,000.	
			Reserve for Other Contingencies	500,000.	
			Total Reserves		4,800,000.
			CAPITAL STOCK	20,000,000.	
			SURPLUS AND UNDIVIDED PROFITS	5,000,000.	
			Total Capital Stock and Surplus		25,000,000.
TOTAL ASSETS		$ 107,000,000.	TOTAL LIABILITIES AND CAPITAL		$ 107,000,000.

EXHIBIT "A"

Fig. 100: General Balance Sheet of Finance Corporation

A TYPICAL FINANCE CORPORATION

SUMMARY OF OPERATIONS

FOR YEAR ENDED DECEMBER 31, 1929

VOLUME	$ 200,000,000.
GROSS INCOME FROM OPERATIONS	$ 10,000,000.
NET OPERATING INCOME from Interest and Discount (Prior to Provision for Federal and Other Taxes)	$ 6,500,000.
LESS: INTEREST AND DISCOUNT CHARGES	4,000,000.
INCOME FROM OPERATIONS	2,500,000.
OTHER INCOME	250,000.
TOTAL INCOME FROM OPERATIONS	2,750,000.
OTHER EXPENSES	150,000.
NET PROFIT FROM OPERATIONS	2,600,000.
SURPLUS AT BEGINNING - JANUARY 1, 1929	3,800,000.
TOTAL SURPLUS (SUBJECT TO DIVIDENDS ON CAPITAL STOCK)	6,400,000.
7% DIVIDEND ON CAPITAL STOCK	1,400,000.
SURPLUS AT END - DECEMBER 31, 1929 (Per Exhibit "A")	$ 5,000,000.

EXHIBIT "B"

Fig. 101: Summary of Operations of Finance Corporation

A NATIONAL BANK & TRUST COMPANY

CONDENSED STATEMENT AS AT DECEMBER 31, 1929

RESOURCES		LIABILITIES		
Cash on Hand, due from Federal Reserve Bank and other banks	$ 6,699,876.35	Capital Stock		$ 2,800,000.00
Bills Discounted	7,998,919.42	Surplus	$1,000,000.00	
Loans Secured by Collateral	3,951,382.67	Undivided Profits	712,983.23	1,712,983.23
United States and other bonds	1,918,138.96	Unearned Discount		69,918.20
Banking House -		Notes in Circulation		41,000.00
Furniture & Fixtures	601,005.60	Cashiers and Certified checks outstanding		82,300.26
Customers' Liability Acceptances executed	46,181.10	Deposits		16,445,990.81
Other Resources	40,040.50	Acceptances executed for customers		46,120.20
		Other Liabilities		57,231.90
Total	$21,255,544.60	Total		$21,255,544.60

Fig. 102: Condensed Statement of National Bank and Trust Company

A National Bank & Trust Company

Income & Profit & Loss

For year ended Decemeber 31, 1929

Gross Earnings:		
Interest Received -		
On Loans		$844,071.12
On Investments		369,857.84
On Balances with other Banks		5,857.84
Domestic Exchanges & Collection charges		17,822.24
Foreign Exchange Department		26,684.48
Commissions Received		6,222.40
Trust Department		36,479.84
Safe Deposit Box Rentals		10,600.00
Profits on Securities Sold		46,942.96
Other Earnings		100,248.80
Total Earnings		$1,464,787.52
Expenses:		
Salaries	$271,422.04	
Interest Paid:		
on Borrowed Money	28,978.56	
on Deposits:		
Time	234,436.32	
Demand	177,200.27	
Bank	47,101.36	
Taxes	41,784.24	
Other Expenses	154,683.40	
Total Expenses		955,606.19
Net Earnings		$509,181.33
Recoveries on charged-off Assets:		
Loans & Discounts	$20,240.36	
All other	5,696.80	
Total Recoveries		$25,937.16
Total Net Earnings & Recoveries		$535,118.49
Losses Charged off:		
on Loans & Discounts	$56,728.96	
on Bonds, Securities, etc.	11,148.44	
on Banking House, Furniture & Fixtures	10,488.68	
on Foreign Exchange	720.00	
all other Losses	12,016.88	
Total Losses charged off		91,102.96
Net Additions to Profits		$444,015.53
Dividends declared		168,000.00
Net Additions to Undivided Profits		$276,015.53

Fig. 103: Income and Profit and Loss Statement of National Bank and Trust Company

CHAPTER XXVII

CONSOLIDATIONS

The object of consolidated statements is to present in logical form the status of the affairs of a group of affiliated organizations.

The consolidated statement takes into consideration the elimination of transactions that have given rise to intercompany accounts and attempts to set forth clearly the actual net worth of all of the organizations as if they were operating as an individual enterprise.

This can be better understood if we picture the owner of a group of assets, distributing them among several persons to use as they see fit and requiring these persons to report to him at a future date. If during the time preceding the report date one of these parties has loaned some of the assets to another to use and in return has received the use of assets from the other party, assuming that each has kept separate books of record, the same loans would appear on one set of books as an asset and on the other as a liability.

If the owner should require a statement from each of the parties at interest it will be seen that the examination of their respective balance sheets individually would be confusing as one transaction would offset another. What he would really desire would be a statement showing the net result of all of these transfers.

This is just what the consolidated balance sheet attempts to do.

If we were to look at the books of a holding company, we would find some account bearing a heading similar to the title "Investments." This would probably represent the cost to the holding company of the purchase of the stocks of its various subsidiaries and any changes in the value of that investment account made necessary by the change in value of the total "net assets" actually in existence and owned by the holding company through possession of the stock of subsidiaries.

While this simple statement would seem to make the consolidated balance sheet appear to be an easy problem, yet in actual practice many complications arise that make the work of setting up these various assets and liabilities in place of the "Investment" account a difficult one.

To understand better the accounting problems affecting intercompany relations the various forms of association that are possible between these organizations will be briefly reviewed.

Types of Combinations

Combinations of corporations usually assume certain well recognized forms and occur by well defined procedures. The familiar combinations are those of consolidation and of merger, the one requiring the creation of a new corporation and as a rule the extinction of the consolidating companies, and the other consisting of the absorption by one company of one or more others. Other types of combinations should be distinguished from consolidations and mergers. Among such other combinations are the acquisition by one corporation of all of the property of another company or the leasing of all the property by one company to another, without actual merger or consolidation of the parties to the sale or the lease. Furthermore, combinations through consolidation or merger or otherwise should be distinguished from reorganization, which is merely a process consisting of the incorporation of a new company with the object of continuing the business of an old corporation under a different name.

Consolidation

A consolidation of corporations has been defined as a combination of two or more corporations of the same or different states by an agreement between them under legislative authority by which their rights, franchises, privileges and property are united and become the rights, franchises, privileges and property of a single corporation composed generally, although not necessarily, of the stockholders of the original corporations. Ordinarily the consolidating corporations are dissolved by the consolidation and cease to exist, and an entirely new and distinct corporation is created as of the time of the consolidation. Statutory provisions regulating consolidations must be strictly complied with. Under a statute limiting the right to consolidate to corporations authorized to "carry on any kind of business of the same or a similar nature," it was held that the provisions of the charter must be referred to in order to determine the nature of the business, and that it is not the business in fact carried on, but the business for which the corporations were organized that determines the right to consolidate. Under such an act an attempted consolidation of a corporation

whose powers were limited could not be effected with a company whose purposes were much more comprehensive.

Procedure of Merger or Consolidation

The statutes of some of the states combine in one or more sections provisions embracing both consolidation and merger, as for example in the State of New Jersey where the words merger and consolidation appear in conjunction wherever used in the covering provisions and where the official form approved by the Secretary of State is entitled "Agreement of Merger and Consolidation." In other states, as in New York, separate sections are devoted to merger and to consolidation and the methods of accomplishing the respective combinations are set forth in detail.

In general, the statutes require an agreement between the stockholders of the consolidating corporations or an agreement of the corporations executed by their boards of directors and ratified by the stockholders, or a certain proportion of them, at meetings duly called for that purpose. The contents of the articles of agreement must be in accordance with the requirements of the statute, and if the statute so provides the articles of agreement must be filed with the officer designated by the statute, whereupon the consolidation becomes effective.

In the case of merger, the statutes sometimes provide that the corporation owning all the stock of another corporation may file in the office of the proper state officer a certificate of such ownership properly executed, whereupon all of the property, rights, privileges and franchises of such other corporation shall vest in and be held by such possessor corporation, subject, however, to all liabilities and obligations of such other corporation, and the rights of creditors thereof. It is sometimes provided that the possessor corporation may assume the name of the merged corporation.

Holding Companies

The statutes of a number of the states provide for the creation of corporations authorized to hold the stock and control the operations of other companies. Where control is surrendered by one or more corporations to another company duly authorized to act as a holding company, the practical effect may be that of a consolidation, but the arrangement is distinguished from the true consolidation in that the old companies still continue in existence.

Accounting for the Consolidation

The process of effecting a consolidation is usually carried out in the following manner: An entirely new organization is formed to take over the business of the companies to be consolidated. This company has its own capital stock issue, which is given to the stockholders of the companies to be consolidated in exchange for their "Net Assets."

It is assumed that Company D is organized with a capital stock authorization sufficient to take care of the purchase of Companies A, B, and C.

At the time the agreement is entered into the balance sheets of the respective companies are as follows:

ASSETS	A	B	C
Cash	$ 15,000	$10,000	$ 5,000
Merchandise	25,000	20,000	15,000
Equipment	20,000	15,000	10,000
Totals	$60,000	$45,000	$30,000
LIABILITIES & CAPITAL			
Notes Payable	$ 5,000	$ 2,000	$ 1,000
Accounts Payable	10,000	4,000	2,000
Capital Stock	45,000	39,000	27,000
Totals	$60,000	$45,000	$30,000

The following entries on the books of Company D would record the facts:

Capital Stock Unissued $111,000.00
  Capital Stock Authorized $111,000.00
    The D Company is this day organized with an authorized capital stock of $111,000.00 consisting of 1110 shares at a par value of $100 each.

Cash $15,000.00
Merchandise 25,000.00
Equipment 20,000.00
  Notes Payable ..... $ 5,000.00
  Accounts Payable 10,000.00
  Vendor-A 45,000.00
    To record the purchase this day of the assets and assumption of the liabilities of Company A.

Vendor A $45,000.00
  Capital Stock Unissued $45,000.00
    For 450 shares of capital stock given in payment to Company A.

Cash $10,000.00
Merchandise 20,000.00
Equipment 15,000.00
    Notes Payable ..... $ 2,000.00
    Accounts Payable 4,000.00
    Vendor-B 39,000.00
        To record the purchase this day of the assets and assumption of the liabilities of Company B.

Vendor-B $39,000.00
    Capital Stock Unissued $39,000.00
        For 390 shares of capital stock given in payment to Company B.

Cash ..... $ 5,000.00
Merchandise 15,000.00
Equipment 10,000.00
    Notes Payable ..... $ 1,000.00
    Accounts Payable 2,000.00
    Vendor-C 27,000.00
        To record the purchase this day of the assets and assumption of the liabilities of Company C.

Vendor-C $27,000.00
    Capital Stock Unissued $27,000.00
        For 270 shares of capital stock given in payment to Company C.

GENERAL BALANCE SHEET
D COMPANY

ASSETS	
Cash	$30,000.00
Merchandise	60,000.00
Equipment	45,000.00
Total	$135,000.00

LIABILITIES & CAPITAL

Notes Payable	$ 8,000.00
Accounts Payable	16,000.00
Capital Stock	111,000.00
Total	$135,000.00

Companies A, B and C would record on their individual books the receipt of the allotment of the stock of Company D in exchange for the "Net Assets." This D Company stock would be distributed to the stockholders of companies A, B and C in exchange for the cancellation of their stock and Companies A, B and C would pass out of existence.

Accounting for the Holding Company

In the case of the formation of a holding company we find an entirely new situation existing. While it may be the intention of several organizations to "centralize" their interests, yet no one of them "buys out" the other.

The holding company purchases the stock from the individual stockholders of the various companies to be controlled, which are known as "subsidiaries."

The holding company may be an entirely new organization formed for this special purpose or it may be one of the original companies.

Both methods of procedure will be illustrated.

Let us first assume the case of the formation of a new company, D. It is created with the intention of securing control of Companies A, B and C previously described.

In order to keep this illustration as simple as possible we will further assume that it has enough capital stock authorized to purchase the outstanding stock of these three companies share for share. Its entries will be as follows:

Capital Stock Unissued $111,000.00
    Capital Stock Authorized $111,000.00
        Company D is this day organized with an authorized capital stock of $111,000.00 consisting of 1110 shares at a par value of $100 each.

Company A Investment $45,000.00
    Capital Stock Unissued $45,000.00
        To record the purchase of the outstanding capital stock of Company A.

Company B Investment $39,000.00
    Capital Stock Unissued $39,000.00
        To record the purchase of the outstanding capital stock of Company B.

Company C Investment $27,000.00
    Capital Stock Unissued $27,000.00
        To record the purchase of the outstanding capital stock of Company C.

It will be seen that companies A, B and C still maintain their individual existence and are in no way affected by these transactions. The stockholders of Companies A, B

and C have merely exchanged their original holdings for stock of D Company.

Of course it is understood that the purchase of these companies can be made by cash in which case "Cash" instead of "Capital Stock Unissued" will be credited.

At this point the balance sheet of Company D, the holding company, is as follows:

GENERAL BALANCE SHEET
COMPANY D

ASSETS	
Company A Investment	$45,000.00
Company B Investment	39,000.00
Company C Investment	27,000.00
Total	$111,000.00
CAPITAL	
Capital Stock	$111,000.00

Let us now assume that Company A in the preceding problem is to act as the holding company purchasing the capital stock of Companies B and C also previously shown, share for share, increasing its own capital stock in the amount necessary to accomplish this purpose.

The following are the transactions recorded on the books of Company A:

Capital Stock Unissued $66,000.00
  Capital Stock Authorized $66,000.00
    To record the increased authorization of stock effective this day; 660 shares at a par value of $100 each.

Company B Investment $39,000.00
  Capital Stock Unissued $39,000.00
    To record the purchase of the outstanding stock of Company B.

Company C Investment $27,000.00
  Capital Stock Unissued $27,000.00
    To record the purchase of the outstanding stock of Company C.

At this point the balance sheet of Company A would appear as follows:

GENERAL BALANCE SHEET
COMPANY A

ASSETS	
Cash	$15,000.00
Merchandise	25,000.00
Equipment	20,000.00
Company B Investment	39,000.00
Company C Investment	27,000.00
Total	$126,000.00
LIABILITIES & CAPITAL	
Notes Payable	$ 5,000.00
Accounts Payable	10,000.00
Capital Stock	111,000.00
Total	$126,000.00

The Consolidated Statement

Up to this point our problems have been comparatively simple. It is when we reach the stage of setting up the combined accounts of the holding and subsidiary companies that great care must be taken to show the result of these intercompany relations in the form of the consolidated balance sheet.

It will be noted that the balance sheet of the holding company presented in both problems shows the amount of its investments in subsidiary companies in one total, which total is the value of the capital stock it purchased.

It is only logical, therefore, that the stockholders of the holding company should wish to know exactly what makes up this valuation as the stock ownership is actually the ownership of the "Net Assets" of the subsidiaries.

The consolidated balance sheet is designed to give this information. It eliminates the "Investment" amounts and in their place presents the actual assets and liabilities that are represented "net" in that account. Thus all the assets actually owned by the combination and its liabilities are shown in detail.

In completing our illustration it will be noted that the final consolidated balance sheet of the holding and subsidiary companies would be as follows:

Consolidated Balance Sheet

ASSETS	
Cash	$30,000.00
Merchandise	60,000.00
Equipment	45,000.00
Total	$135,000.00
LIABILITIES & CAPITAL	
Notes Payable	$ 8,000.00
Accounts Payable	16,000.00
Capital Stock	111,000.00
Total	$135,000.00

It will be seen that this balance sheet agrees with those prepared under the consolidation procedures. This is as it should be for each one of these methods of bringing the various organizations together result in a "pooling" of interests. The only difference is in the physical changes, for under the merger and consolidation procedures all or all but one company pass out of existence, whereas under the holding company plan each continues to operate as an individual unit showing the consolidated results in the final form of consolidated statements.

There are several other questions that should be considered in order to gain a complete understanding of the basic principles of showing consolidated results in statement form.

Up to this point in the illustrations that have been used, only the simple problem of purchasing interests in other companies by buying the capital stock outright at par value has been considered. However, in actual practice such procedure is the exception rather than the rule.

It will usually be found upon the date of purchase that the subsidiary company, during the course of its operations has acquired either a Surplus or a Deficit.

Since the actual value of stock is the capital amount plus Surplus or Undivided profits or minus any Deficit or Undistributed Losses, it is readily seen that any Surplus or Deficit that exists at the time of purchase should be

added to or deducted from the amount of the stock as shown by the Capital Stock Issued account, in order to determine its book value.

In addition another factor of interest is that the price paid for the purchase of the stock of a subsidiary may be greater or less in amount than its actual book value.

The effect of these conditions upon the accounts will now be considered.

Purchase Price Exceeding Book Value

Assume that Company A purchases the Capital Stock of Companies B and C for the sum of $85,000 which is in excess of the total net book value by $9,000. The balance sheets of these respective companies at the time the deal is consummated are as follows:

ASSETS	A	B	C
Cash	$ 15,000	$10,000	$ 5,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Investment Co. B	50,000		
" " C	35,000		
Totals	$155,000	$50,000	$35,000
LIABILITIES & CAPITAL			
Notes Payable	$ 5,000	$ 2,000	$ 1,000
Accounts Payable	10,000	4,000	2,000
Surplus	10,000	5,000	5,000
Capital Stock	130,000	39,000	27,000
Totals	$155,000	$50,000	$35,000

It will be seen in consolidating the various accounts of these companies that when eliminating the Capital Stock and Surplus of Company B against the Investment account carried on the books of Company A, there is a remainder in the Investment account of $6,000 and likewise in the case of Company C, of $3,000. This total excess represents good will, as in theory it is presumed that any amount paid for the purchase of the "Net Assets" of a company in excess of its book value represents in reality the good will valuation of that company. The account Good Will of $9,000 is accordingly carried on the consolidated balance sheet,

which in the problem under consideration would appear as follows:

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 30,000
Merchandise	70,000
Equipment	55,000
Good Will	9,000
Total	$164,000
LIABILITIES & CAPITAL	
Notes Payable	$ 8,000
Accounts Payable	16,000
Surplus	10,000
Capital Stock	130,000
Total	$164,000

To carry this illustration further, it will be assumed in this instance that the subsidiary companies have a deficit at the time of their purchase and that holding company A pays $66,000, or $7,000 in excess of the combined net book value. The balance sheets of the respective companies are as follows:

ASSETS	A	B	C
Cash	$ 15,000	$ 5,000	$ 3,000
Merchandise	30,000	20,000	10,000
Equipment	25,000	15,000	15,000
Investment Co. B	39,000		
Investment Co. C	27,000		
Deficit		5,000	2,000
Totals	$136,000	$45,000	$30,000
LIABILITIES & CAPITAL			
Notes Payable	$ 5,000	$ 2,000	$ 1,000
Accounts Payable	10,000	4,000	2,000
Surplus	10,000		
Capital Stock	111,000	39,000	27,000
Totals	$136,000	$45,000	$30,000

In preparing the consolidated balance sheet we note that in eliminating the capital stock and deficit of Company B against the Investment account carried on Company A's books there is a remainder of $5,000 and likewise in the case of Company C $2,000, representing excess of purchase price over book value. This, as was explained in the previous problem, represents "Good will."

The consolidated balance sheet is as follows:

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 23,000
Merchandise	60,000
Equipment	55,000
Good will	7,000
Total	$145,000
LIABILITIES & CAPITAL	
Notes Payable	$ 8,000
Accounts Payable	16,000
Surplus	10,000
Capital Stock	111,000
Total	$145,000

Book Value Exceeding Purchase Price

The purchase of the subsidiary company at a price less than its book value gives rise to some very interesting points for consideration. It has been noted that in the case where the purchase price exceeded the book value, the excess was considered as good will.

However in the case where the Holding Company has purchased at a lesser price, it is reasonable to assume that either the company has made a favorable purchase, or it believes that some asset or assets of the subsidiary company has or have been overvalued and the price paid reflects what the holding company considers the "net assets" to be worth.

The difference between the purchase price and the book value will be carried on the consolidated balance sheet in one of several ways depending upon the interpretation of the cause of the difference. Briefly it can be shown as follows:

1—As a deduction from Good Will
2—As a deduction from some asset account
3—As a Revaluation Reserve
4—As Capital Surplus

(1) If a Good Will account exists on the books of any of the companies in the consolidation the difference between the purchase price and book value may be deducted therefrom.

(2) However, if it is believed that some asset is overvalued then the deduction can be made from that asset.

(3) Further, if it is felt that the assets are overvalued, but the overvaluation cannot be traced to any specific asset or assets it can be carried in the form of a Reserve for Revaluation.

(4) Finally if it is not a case of overvalued assets and there are no existing good will accounts on the books of the various companies, then the difference will be credited to Capital Surplus.

Brief illustrations of all of these methods of procedure follow. In each instance the individual balance sheets are first shown and then the consolidated balance sheet.

Illustration No. 1—As a deduction from Good Will

Book Value—B & C	$76,000
Purchase Price	72,000
Excess—Overvaluation of equipment	$ 4,000

ASSETS	A	B	C
Cash	$15,000	$10,000	$ 5,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Good will	10,000		
Investment Co. B	42,000		
Investment Co. C	30,000		
Totals	$152,000	$50,000	$35,000
LIABILITIES & CAPITAL			
Notes Payable	$10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	2,000	1,000
Surplus	7,000	4,000	2,000
Capital Stock	130,000	40,000	30,000
Totals	$152,000	$50,000	$35,000

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 30,000
Merchandise	70,000
Equipment	55,000
Good will	6,000
Total	$161,000
LIABILITIES & CAPITAL	
Notes Payable	$ 16,000
Accounts Payable	8,000
Surplus	7,000
Capital Stock	130,000
Total	$161,000

Illustration No. 2—As a Deduction from an Asset

Book Value—B & C	$76,000
Purchase Price	72,000
Excess—Overvaluation of equipment	$ 4,000

ASSETS	A	B	C
Cash	$ 15,000	$10,000	$ 5,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Investment Co. B	42,000		
Investment Co. C	30,000		
Totals	$142,000	$50,000	$35,000
LIABILITIES & CAPITAL			
Notes Payable	$ 10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	2,000	1,000
Surplus	7,000	4,000	2,000
Capital Stock	120,000	40,000	30,000
Totals	$142,000	$50,000	$35,000

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 30,000
Merchandise	70,000
Equipment	51,000
Total	$151,000
LIABILITIES & CAPITAL	
Notes Payable	$ 16,000
Accounts Payable	8,000
Surplus	7,000
Capital Stock	120,000
Total	$151,000

Illustration No. 3—As a Revaluation Reserve

Book Value B & C	= $76,000
Purchase Price	= 72,000
Excess—Overvaluation of assets in general	$ 4,000

ASSETS	A	B	C
Cash	$ 15,000	$10,000	$ 5,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Investment Co. B	42,000		
Investment Co. C	30,000		
Totals	$142,000	$50,000	$35,000
LIABILITIES & CAPITAL			
Notes Payable	$ 10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	2,000	1,000
Surplus	7,000	4,000	2,000
Capital Stock	120,000	40,000	30,000
Totals	$142,000	$50,000	$35,000

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 30,000
Merchandise	70,000
Equipment	55,000
Total	$155,000
LIABILITIES & CAPITAL	
Notes Payable	$ 16,000
Accounts Payable	8,000
Reserve for Revaluation of assets	4,000
Surplus	7,000
Capital Stock	120,000
Total	$155,000

Illustration No. 4—As Capital Surplus

Book Value B & C	= $76,000
Purchase Price	= 72,000
Excess transferred to Capital Surplus	$ 4,000

ASSETS	A	B	C
Cash	$ 15,000	$10,000	$ 5,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Investment Co. B	42,000		
Investment Co. C	30,000		
Totals	$142,000	$50,000	$35,000
LIABILITIES & CAPITAL			
Notes Payable	$ 10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	2,000	1,000
Surplus	7,000	4,000	2,000
Capital Stock	120,000	40,000	30,000
Totals	$142,000	$50,000	$35,000

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 30,000
Merchandise	70,000
Equipment	55,000
Total	$155,000
LIABILITIES & CAPITAL	
Notes Payable	$ 16,000
Accounts Payable	8,000
Surplus	7,000
Capital Surplus	4,000
Capital Stock	120,000
Total	$155,000

In all these illustrations it has been assumed that each company has a surplus and the book value was determined by adding the Surplus and the Capital Stock. If, however, any company's balance sheet showed a deficit, the reader will recall that the book value is then determined by deducting the Deficit from the Capital Stock, after which the same procedure would be followed as has been set forth in the instances illustrated.

Holding Company With Part Ownership of Subsidiaries

In many instances holding companies are not in full possession of the capital stock of their subsidiary companies, part being held by others. In such a case when making eliminations of the book value of the subsidiary's stock against the Investment account on the holding company's books, only that percentage of the book value which the holding company owns shall be eliminated; the balance shall be shown on the consolidated balance sheet as a liability to minority stockholders.

As an illustration of this procedure it will be assumed that Company A purchases 75% of the capital stock of Company B and 90% of Company C as shown in the following balance sheets, paying for B Company's stock $38,000, or an excess over book value of $5,000, and for C Company's

stock $25,800, which is less than its book value by $3,000. The individual balance sheets are:

ASSETS	A	B	C
Cash	$10,000	$10,000	$ 5,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Good will	15,000	5,000	
Investment Co. B	38,000		
Investment Co. C	25,800		
Deficit			2,000
Totals	$143,800	$55,000	$37,000
LIABILITIES & CAPITAL			
Notes Payable	$ 10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	7,000	1,000
Surplus	8,800	6,000	
Capital Stock	120,000	38,000	34,000
Totals	$143,800	$55,000	$37,000

The resulting consolidated balance sheet would be as follows:

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 25,000
Merchandise	70,000
Equipment	55,000
Good will	22,000
Total	$172,000
LIABILITIES & CAPITAL	
Notes Payable	$ 16,000
Accounts Payable	13,000
Surplus	8,800
Minority Holdings Co. B (25%)	11,000
Minority Holdings Co. C (10%)	3,200
Capital Stock	120,000
Total	$172,000

A brief analysis of the eliminations made in constructing the foregoing consolidated balance sheet may be of assistance to the reader.

The book value of Company B was made up of its capital stock of $38,000 plus a surplus of $6,000 totaling $44,000. Of this total, Holding Company A purchased 75% or $33,000 paying $38,000 therefor.

In making the eliminations for consolidated balance sheet purposes the $38,000 Investment account of Company B is dropped. The $5,000 excess purchase price is added to the Good Will resulting in a $33,000 net elimination from the asset side. This is counterbalanced by eliminating $28,500 (75%) of the Capital Stock and $4,500 (75%) of the Surplus of Company B. The remainders of the Capital Stock and Surplus which belong to the minority stockholders are shown as separate capital items.

The book value of Company C was made up of its Capital Stock of $34,000 less a deficit of $2,000 or a net of $32,000. Of this total, Holding Company A purchased 90% or $28,800, paying $25,800 therefor.

In making the eliminations the $25,800 Investment account of Co. C is dropped and the $3,000 difference between the book value of the purchase and the purchase price is deducted from the Good Will account. This makes a total elimination of $28,800 from the asset side. This is counterbalanced by eliminating $30,600 (90%) of the Capital Stock less $1,800 (90%) of the Deficit. The remaining 10% of the capital stock of Company C, less 10% of the deficit, represents the holdings of the minority stockholders.

Profits, Losses and Dividends

Up to this point it will be noted that consideration has been given merely to the consolidated balance sheet at the time the Holding Company purchases the subsidiaries. However, the reader will naturally understand that any change affecting the status of the subsidiary companies during their fiscal period should naturally be reflected on the books of the holding company and in the consolidated statements prepared at the end of such period.

In order to illustrate such a condition let us proceed on the assumption that the companies just mentioned have operated for a period of one year with the following results:

The Holding Company has made a profit of $10,000, which for balance sheet purposes we will assume has increased its Cash and Surplus accounts; Company B has made a profit of $5,000 which we again assume has increased its Cash and Surplus accounts; Company C has

sustained a loss of $1,000 increasing its Deficit and decreasing its Cash.

At this point the Holding Company would make the following entries upon its books:

Investment Company B $3750
  Company B Income $3750
    To take up 75% of the $5,000 profits of Company B for the current year.

Company C Loss $900
  Company C Investment $900
    To take up 90% of the $1000 loss of Company C for the current year.

It will be seen that we are carrying the Investment account of the subsidiaries on the books of the Holding Company at a figure representing Cost, which is equivalent to the book value of the subsidiary company's stock plus or minus any decrease or increase in the amount paid over the book value. Therefore if we wish to keep this equation, it is necessary that every factor which changes that book value on the books of the subsidiary be reflected by a change in the Investment account on the books of the Holding Company. For that reason the Holding Company makes the entries shown above to reflect Company B's profit and Company's C's loss in their respective investment accounts and transfers the Profit or Loss to its Surplus Account.

The balance sheets of the respective companies at this point are as follows:

ASSETS	A	B	C
Cash	$20,000	$15,000	$ 4,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Good will	15,000	5,000	
Investment Co. B	41,750		
Investment Co. C	24,900		
Deficit			3,000
Totals	$156,650	$60,000	$37,000
LIABILITIES & CAPITAL			
Notes Payable	$ 10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	7,000	1,000
Surplus	21,650	11,000	
Capital Stock	120,000	38,000	34,000
Totals	$156,650	$60,000	$37,000

At this point it will be further assumed that Company B declares a dividend of $10,000 which it pays out of cash. The Holding Company's proportion of this dividend is 75% or $7,500. Since the payment of this dividend by Company B will reduce its Surplus and correspondingly the book value of its stock, the Holding Company should reflect this change in book value by the following entries:

Subsidiary Dividends Receivable	$7,500	
Company B Investment		$7,500
To record 75% of Dividend of $10,000 declared by Company B.		
Cash	$7,500	
Subsidiary Dividends Receivable		$7,500
To record dividend received from Company B.		

The individual balance sheets are now as follows:

ASSETS	A	B	C
Cash	$ 27,500	$ 5,000	$ 4,000
Merchandise	30,000	25,000	15,000
Equipment	25,000	15,000	15,000
Good will	15,000	5,000	
Investment Co. B	34,250		
Investment Co. C	24,900		
Deficit			3,000
Totals	$156,650	$50,000	$37,000
LIABILITIES & CAPITAL			
Notes Payable	$ 10,000	$ 4,000	$ 2,000
Accounts Payable	5,000	7,000	1,000
Surplus	21,650	1,000	
Capital Stock	120,000	38,000	34,000
Totals	$156,650	$50,000	$37,000

When consolidated these balance sheets would appear as follows:

CONSOLIDATED BALANCE SHEET

ASSETS	
Cash	$ 36,500
Merchandise	70,000
Equipment	55,000
Good will	22,000
Total	$183,500
LIABILITIES & CAPITAL	
Notes Payable	$ 16,000
Accounts Payable	13,000
Minority Holdings (Co. B 25%)	9,750
Minority Holdings (Co. C 10%)	3,100
Surplus	21,650
Capital Stock	120,000
Total	$183,500

By comparing the individual balance sheets with the consolidated statement it will be noted that the following eliminations have been made:

ASSET SIDE

Investment Co. B—	$34,250	(Eliminated)
	5,000	(Purchase Price exceeded Book Value by this amount and is added to Good Will.)
	$29,250	(Net Elimination)
Investment Co. C—	$24,900	(Eliminated)
	$3,000	(Purchase Price less than Book Value by this amount. Deducted from Good Will.)
	$27,900	(Total Elimination)

LIABILITY SIDE

Co. B Book Value	$39,000	
	9,750	(Minority holdings shown as liability.)
	$29,250	(Holding Company's 75% interest eliminated.)
Co. C Book Value	$31,000	
	3,100	(Minority holdings shown as liability.)
	$27,900	(Holding Company's 90% interest eliminated.)

Other Inter-Company Eliminations

The discussion of inter-company relationships presented so far have taken into consideration only those factors affecting the changes in the book values of the stock of sub-

sidiaries and corresponding investment accounts on the holding company books. It must not be lost sight of, however, that other factors frequently arise necessitating consideration by the accountant when showing the consolidated totals in statement form. These may occur as the result of many different types of transactions.

For instance one company in the consolidation may sell merchandise to another giving rise to Accounts Receivable on one set of books and Accounts Payable on the other. Or one company may give a note to another which results in Notes Receivable and Notes Payable, respectively, or there may be inter-company bond holdings, unpaid dividends which have been declared, etc. It can be seen, therefore, that the asset on one company's books is a liability on the other's. In consolidating the several statements of these companies these amounts must be dropped as they do not affect the combined result. The method of making these eliminations will be shown in the problems illustrated at the end of this chapter.

The Consolidated Income Statement

Not only do the balance sheet accounts set forth inter-company relationships, but these inter-company transactions are also found to exist in the various Profit and Loss Accounts of the Holding Company and its subsidiaries.

It should be understood that Company A in the consolidation may sell merchandise to Company B. On A's books there would be an amount in the "Sales" account that is reflected by a corresponding amount in the "Purchases" account of Company B.

Likewise B Company may have included in its merchandise inventory, valuations which contain an element of profit to A Company through the sale made to Company B.

These are only two illustrations of the many possible transactions of a similar nature which may arise.

In setting up the consolidated balance sheet adjustments would be made to reflect the true condition of all companies as they would appear if operating as one unit. In the Consolidated Income Statement a similar procedure is followed.

Procedure in Preparing Consolidated Income Statements

(a)—All inter-company transactions will be eliminated from the accounts of the various companies on whose books they appear.

(b)—All inter-company profits reflected in the inventory accounts will be adjusted. Profits in inventories at the beginning of the period are eliminated by reducing the inventories which in effect reduces the Cost of Sales and the Holding Company's Surplus. If the beginning of the period is prior to or coincides with the date of acquiring the subsidiaries no adjustments need be made as no inter-company accounts are involved. The profits on inventories at the close of the period are adjusted by reducing the inventory valuations. This actually increases the "Cost of Sales" since any decrease in the closing inventory increases the cost of goods sold.

(c)—All other items of Revenue or Expense that are of a like nature will be consolidated.

The problem submitted at the end of this chapter illustrates the method of setting up Consolidated Income Statements.

Consolidated Balance Sheet Problem No. 1

The Evers Corporation acquired $80,000 par value of the stock of the Rolfe Corporation on April 17, 1927. This stock had been acquired from stockholders of the Rolfe Corporation by purchase for $60,000 in cash.

The Evers Corporation immediately thereafter advanced $32,000 to the Rolfe Corporation and in return for the advance received bonds of the Rolfe Corporation of a par value of $40,000.

At the time of the acquisition of the Rolfe Corporation stock by the Evers Corporation, the balance sheet of the Rolfe Corporation disclosed that it had outstanding $120,000 of capital stock and that it had a surplus of $10,867.20.

The balance sheets of the companies as at December 31, 1929, are shown below:

THE EVERS CORPORATION
Balance Sheet as at December 31, 1929.
ASSETS

Rolfe Corporation stock at cost, (800 shares $100 par value)	$ 60,000.00
Rolfe Corporation bonds at cost, ($40,000 par value)	32,000.00
Accrued interest on Rolfe Corporation bonds	400.00
Cash	9,106.93
Accounts Receivable	48,926.90
Accrued interest and other assets	1,172.60
Inventories	63,929.48
Deferred charges	3,206.90
Total	$218,742.81

LIABILITIES AND CAPITAL

Bills Payable, Rolfe Corporation	$ 10,000.00
Rolfe Corporation current account	17,628.42
Accrued interest	963.87
Accounts Payable	32,741.62
Bills Payable	14,000.00
Sundry accrued liabilities	4,902.50
Reserve for bad debts	1,416.87
Capital Stock	100,000.00
Surplus	37,089.53
Total	$218,742.81

THE ROLFE CORPORATION

Balance Sheet as at December 31, 1929.

ASSETS

Evers Corporation current account	$ 17,628.42
Bills Receivable, Evers Corporation	10,000.00
Cash	14,020.73
Accounts Receivable	19,612.07
Accrued interest and other assets	201.20
Plant and Equipment	141,965.89
Inventories	87,406.80
Deferred charges	1,872.16
Total	$292,707.27

LIABILITIES AND CAPITAL

Accrued interest	$ 1,000.00
Accounts Payable	2,408.19
Dividend Payable	1,200.00
Reserve for bad debts	800.00
Reserve for depreciation	40,818.88
Bonds Payable	100,000.00
Capital Stock	120,000.00
Surplus	26,480.20
Total	$292,707.27

The Rolfe Corporation sells its entire output to the Evers Corporation at an advance of 25 per cent over cost. Included in the inventories of the Evers Corporation is merchandise valued at $40,872.50 that had been sold to it by the Rolfe Corporation. This amount represented cost to the Evers Corporation.

The dividend payable shown on the Rolfe Corporation balance sheet represents a dividend that had been declared December 30, 1929, payable January 11, 1930, of 1 per cent on its outstanding capital stock.

The solution of this problem considers the preparation of the consolidated balance sheet as at December 31, 1929, and in connection therewith submits working sheets and computations. (See Figs. 104 and 105.) When preparing the balance sheet, it was assumed that the Rolfe Corporation has charged off to surplus as at December 31, 1929, the unamortized discount on bonds that had been sold.

Solution to Problem 1

JOURNAL ENTRIES—FIRST METHOD
(On Books of Holding Company)

(1)	Dr.	Cr.
Rolfe Corporation Stock	$27,244.80	
To Surplus		$27,244.80
To adjust the Investment account so as to make it equal to the book value of the stock of the Rolfe Corporation at date of acquisition.		
Capital Stock $120,000.00		
Surplus at April 17 10,867.20		
130,867.20		
Minority stockholders' interest (1/3) 43,622.40		
Value of stock acquired 87,244.80		
Amount paid 60,000.00		
Difference 27,244.80		
(2)		
Rolfe Corporation Bonds	8,000.00	
To Surplus		8,000.00
To adjust the former account so as to make it equal to the book value of the bonds acquired.		
(3)		
Surplus	8,174.50	
To Inventories		8,174.50
To eliminate inter-company profit of 25% in the inventory of Evers Co. of merchandise received from the Rolfe Co. and billed by them at 25% above cost.		

Inventory $\frac{40,872.50}{1.25}$ = 32,698 cost to Rolfe Corp.

40,872.50—32,698=$8,174.50

(4)

Dividends Receivable	800.00	
To Rolfe Corporation Stock		800.00
To record dividend declared by Rolfe Corp. Dec. 31, 1929 payable Jan. 11, 1930.		

(5)

Rolfe Corporation Stock	11,208.67	
To Surplus		11,208.67
To adjust the former account so as to make it equal to the book value of the stock at December 31, 1929.		

Surplus of Rolfe Corp. Dec. 31	26,480.20
Add Dividend declared	1,200.00
Total	27,680.20
Deduct Surplus Apr. 17, 1927	10,867.20
Profit for the period	16,813.00

2/3 of 16,813=11,208.67 our share of profits.

The following journal entry is made for work sheet purposes only in order to prepare the consolidated balance sheet:

(6)

Capital Stock—Rolfe Corp.	120,000.00	
Surplus—Rolfe Corp.	26,480.20	
To Rolfe Corp. Stock		97,653.47
Minority Stockholders' Interest		48,826.73
To eliminate the Investment account on the books of the Evers Co. and to set up the minority stockholders' interest as represented by the balance sheet of the Rolfe Corp. at Dec. 31, 1929.		

1/3 of capital stock	40,000.00
1/3 of surplus	8,826.73
	48.826.73

Journal Entries—Second Method

(On Books of Holding Company)

The journal entries under the second method do not take into consideration the adjusting of the Investment Account as shown in Journal Entries No. 1 and No. 5 under the first method. This adjustment is made at the end of the period. It will be noted that the balance in the Investment Account after posting Journal entries No. 1 to No. 4 inclusive is $38,453.47, which is the exact amount of adjustment made by Journal entries No. 1 and No. 5 under the first method. The last journal entry under the second method is therefore made to take up the necessary "Surplus" credit, thus closing the Investment account, as the actual capital stock has been set up in its place.

Journal entries Nos. 1, 2, 3, and 4 under the second method are similar to Nos. 2, 3, 4 and 6 under the first method.

(1)

Rolfe Corporation Bonds	$8,000.00	
Surplus		$8,000.00

(2)

Surplus	8,174.50	
Inventories		8,174.50

(3)

Dividends Receivable	800.00	
Rolfe Corp. Stock		800.00

(4)

Capital Stock Rolfe Corp.	120,000.00	
Surplus Rolfe Corp.	26,480.20	
Rolfe Corp. Stock		97,653.47
Minority Stockholders		48,826.73

(5)

Rolfe Corp. Stock	38,453.47	
Surplus		38,453.47

The Working Sheet after setting up the balance sheets of both companies at December 31, 1929, has columns for "Adjustments" in which are posted the journal entries as presented under the first method. The "Elimination Column" takes out all inter-company accounts and the "Balance Sheet" column shows the adjusted figures for the Consolidated Balance Sheet after these journal entries and eliminations have been taken into consideration.

	Assets	Evers Corp	Rolfe Corp.	Adjustments Dr.	Adjustments Cr.	Elim.	Balance Sheet
1	Rolfe Corp. Stock (at cost)	$ 60,000.00		(1) $27,244.80	(4) $ 800.00		
2	" " "			(5) 11,208.67	(6) 97,653.47		
3	Rolfe Corp. Bonds (at cost)	32,000.00		(2) 8,000.00		D $40,000.00	
4	Accrued Int. on Rolfe Corp. Bonds	400.00				C 400.00	
5	Cash	9,106.93	$14,020.73				$ 23,127.66
6	Accounts Receivable	48,926.90	19,612.07				68,538.97
7	Accrued Int. and Other Assets	1,172.60	201.20				1,373.80
8	Inventories	63,929.48	87,406.80		(3) 8,174.50		143,161.78
9	Deferred Charges	3,206.90	1,872.16				5,079.06
10	Evers Corp. Current		17,628.42			B 17,628.42	
11	Bills Rec. Evers Corp.		10,000.00			A 10,000.00	
12	Plant and Equipment		141,965.89				141,965.89
13		$218,742.81	$292,707.27				
14	Dividends Receivable			(4) 800.00		E 800.00	
						$68,828.42	$383,247.16
	Liabilities and Capital						
15	Bills Payable Rolfe Corp.	$10,000.00				A 10,000.00	
16	Rolfe Corp. Current	17,628.42				B 17,628.42	
17	Accrued Interest	963.87	$1,000.00			C 400.00	1,563.87
18	Accounts Payable	32,741.62	2,408.19				35,149.81
19	Bills Payable	14,000.00					14,000.00
20	Sundry Accrued Liabilities	4,902.50					4,902.50
21	Reserve for Bad Debts	1,116.87	800.00	(6) 120,000.00			2,216.87
22	Capital Stock	100,000.00	120,000.00	(3) 8,174.50	(1) 27,244.80		100,000.00
23	Surplus	37,089.53	26,480.20	(6) 26,480.20	(2) 8000.00		75,368.50
24					(5) 11,208.67		
25							
26							
27						E 800.00	400.00
28	Dividends Payable		1,200.00				40,818.88
29	Reserve for Depr.		40,818.88				60,000.00
30	Bonds Payable		100,000.00			D 40,000.00	
31		$218,742.81	$292,707.27		(6) 48,826.73		48,826.73
32	Minority Stockholders Int.			$201,908.17			
33					$201,908.17	$68,828.42	$383,247.16

Fig. 104: Working Sheet—Problem No. 1

The figures in parentheses shown alongside the entries in the "Adjustments" column refer to the number of the journal entry.

The figures in the "Eliminations" column drop the following items in setting up the consolidated statement. The letters refer to the items similarly lettered on the Working Sheet.

A—The note holdings of the Rolfe Corporation against the Evers Corporation.

B—The "open account" owed by the Rolfe Corporation to the Evers Corporation.

C—That part of the accrued interest on bonds which the Rolfe Corporation owes to the Evers Corporation.

D—That part of the Rolfe Corporation's Bonds Payable which is held by the Evers Corporation.

E—That part of the Dividends Payable of the Rolfe Corporation which is due the Evers Corporation.

The Consolidated Balance Sheet as set up from the final figures on the Working Sheet is as follows:

Consolidated Balance Sheet of the Evers Corporation and the Rolfe Corporation at December 31, 1929

ASSETS

CURRENT ASSETS		
Cash	$ 23,127.66	
Accounts Receivable	68,538.97	
Merchandise Inventory	143,161.78	
Accrued Interest, etc.	1,373.80	
Total Current Assets		$236,202.21
FIXED ASSETS		
Plant & Equipment		141,965.89
DEFERRED CHARGES		5,079.06
Total Assets		$383,247.16

LIABILITIES & CAPITAL

CURRENT LIABILITIES		
Bills Payable	$14,000.00	
Accounts Payable	35,149.81	
Dividends Payable	400.00	
Accrued Interest	1,563.87	
Sundry Accruals	4,902.50	
Total Current Liabilities		$56,016.18

RESERVES		
Reserve for Depreciation	$40,818.88	
Reserve for Bad Debts	2,216.87	
Total Reserves		43,035.75
CAPITAL LIABILITIES		
Bonds Payable		60,000.00
Minority Stockholders' Interest		48,826.73
Capital Stock		100,000.00
Surplus		75,368.50
Total Liabilities & Capital		$383,247.16

The following problem illustrates the preparation of a Consolidated Balance Sheet and Income Statement:

Consolidated Balance Sheet and Income Statement—Problem No. 2

Following are the trial balances of Company A and its subsidiaries at December 31, 1929:

DEBITS	Co. A	Co. B	Co. C
Cash	$ 75,000	$ 50,000	$ 60,000
Accounts Receivable	350,000	190,000	420,000
Notes Receivable	200,000	60,000	40,000
Inventory, raw material, Jan. 1, 1929	150,000	105,000	160,000
Purchases, raw materials	650,000	400,000	510,000
Labor	450,000	320,000	370,000
Manufacturing expenses	190,000	190,000	205,000
Selling expenses	85,000	40,000	75,000
Administrative expenses	45,000	25,000	35,000
Inventory, goods in process Jan. 1, 1929	80,000	70,000	75,000
Inventory, finished goods, Jan. 1, 1929	90,000	65,000	80,000
Plant and equipment	900,000	400,000	750,000
Investment in stock of Company B	875,000		
Investment in stock of Company C	1,200,000		
Totals	$5,340,000	$1,915,000	$2,780,000

CREDITS	Co. A	Co. B	Co. C
Capital Stock	$3,000,000	$ 500,000	$ 800,000
Notes Payable	110,000	80,000	60,000
Accounts Payable	100,000	65,000	250,000
Bonds Payable	500,000		
Premium on bonds	5,000		
Reserve for depreciation	100,000	60,000	112,500
Sales	1,400,000	1,050,000	1,250,000
Surplus	125,000	160,000	307,500
Totals	$5,340,000	$1,915,000	$2,780,000

The inventories at December 31, 1929, were:

	Co. A	Co. B	Co. C
Raw material	$ 280,000	$ 175,000	$ 210,000
Goods in process	95,000	80,000	85,000
Finished goods	135,000	145,000	105,000

Company A purchased the entire stock issues of Companies B and C at January 1, 1929, at the prices shown in the trial balance. During the year each of the three companies declared and paid a 5 per cent dividend. Company A took up its dividends from Companies B and C by credits to Surplus. The various entries for the dividends were the only entries affecting the surplus accounts during the year.

At December 31, 1928, Company A's inventory of raw material included goods purchased from Company B at a price of $60,000, the cost thereof to Company B being $40,000.

At the same date Company B's inventory of raw material included goods purchased from Company C for $75,000 on which Company C made a profit of $25,000.

During 1929, Company C sold goods to Company B at a price of $200,000. These goods cost Company C $160,000. Company B still owes $30,000 on these purchases, the indebtedness being included in the Accounts Payable.

During 1929, Company B sold goods to Company A at a cost of $300,000 and at a selling price of $375,000. Company A made cash advances totaling $400,000 to Company B during the year. The sales just mentioned were charged against the advance account, the $25,000 balance of which is included in Company B's Accounts Payable.

The inventories at December 31, 1929, include intercompany profits as follows:

	Raw Material	Goods in process	Finished goods
Company A	$20,000	$5,000	$4,000
Company B	30,000	6,000	5,000

Company A's bonds were issued July 1, 1929. They bear 5 per cent interest, payable semi-annually and mature in five years. No interest has been paid.

Allow depreciation at 5 per cent per annum on the cost of the fixed assets.

Consolidated statements will be prepared showing:

A—Cost of goods manufactured and sold.

B—Profit and loss statement.

C—Surplus statement (showing as the final balance therein the surplus balance appearing in the consolidated balance sheet).

D—Balance sheet.

Solution to Problem No. 2

ADJUSTING ENTRIES

—1—

Good Will	$190,000	
Investment in Stock—Company B		$190,000
To adjust the Investment account so as to make it equal to the book value of the stock of the B. Co.		

Capital stock	$500,000
Surplus	160,000
	660,000
Add—Dividend declared	25,000
Book value	685,000
Cost	875,000
Difference—Good Will	190,000

—2—

Good Will	52,500	
Investment in Stock of Company C		52,500
To adjust the Investment account so as to make it equal to the book value of the stock of Company C.		

Capital stock	800,000
Surplus	307,500
	1,107,500
Add—Dividend paid	40,000
Book value of stock	1,147,500
Cost	1,200,000
Difference—Good Will	52,500

—3—

Inventory—Raw Materials New	665,000	
Inventory—Goods in Process, New	260,000	
Inventory—Finished Goods, New	385,000	
Inventory—Raw Materials, Old		665,000
Inventory—Goods in Process, Old		260,000
Inventory—Finished Goods, Old		385,000
To set up the inventories at December 31, 1929.		

—4—

Inventory, Raw Materials Old	50,000	
" Goods in process old	11,000	
" Finished goods old	9,000	
Inventory raw materials new		50,000
" goods in process new		11,000
" finished goods new		9,000
To eliminate inter-company profits in the inventories as follows:		

	Raw Materials	Goods in Process	Finished Goods
Co. A	20,000	5,000	4,000
Co. B	30,000	6,000	5,000
Totals	50,000	11,000	9,000

—5—

Interest on bonds payable	$12,500	
Interest accrued on bonds payable		$12,500
Interest accrued on A Co. bonds from July 1 to Dec. 31, 1929. 2½% on $500,000.		

—6—

Depreciation on Plant	102,500	
Reserve for depreciation—plant		102,500
Depreciation at 5% per annum on plant & equipment $2,050,000.		

—7—

Premium on bonds	500	
Premium on bonds written off		500
Premium on bonds for ½ year written off.		
5,000 ÷ 5 = $1,000 ÷ 2 = $500.		

—8—

Profit and Loss	360,500	
Surplus		360,500
Consolidated profit for the year.		

	Assets	Company A	Company B	Company C	Adjustments Dr.	Adjustments Cr.	Eliminations	Profit and Loss	Balance Sheet
1	Cash	$75,000	$50,000	$60,000					$185,000
2	Accts. Rec.	350,000	190,000	420,000			(a) $25,000		905,000
3							(b) 30,000		
4	Notes Rec.	200,000	60,000	40,000					300,000
5	Inv. Raw Mat. Jan. 1, 1929	150,000	105,000	140,000	(3) $50,000	(3) $665,000		- $200,000	
6	Purch. Raw Mat.	650,000	400,000	510,000			(c) 200,000	985,000	
7							(d) 375,000		
8	Labor	450,000	320,000	370,000				1,140,000	
9	Mfg. expense	190,000	190,000	205,000				585,000	
10	Selling expense	85,000	40,000	75,000				200,000	
11	Admin. expense	45,000	25,000	35,000				105,000	
12	Inv. goods in process Jan. 1, 1929	80,000	35,000	40,000	(4) 11,000	(3) 260,000		144,000	
13	Inv. Finished goods Jan. 1, 1929	90,000	65,000	80,000	(4) 9,000	(3) 385,000		- 141,000	
14	Plant and Equip.	900,000	400,000	750,000					2,050,000
15	Invest. in Stock of Co. B	575,000			(1) 190,000	(e) 685,000			
16	Invest. in stock of Co. C	1,200,000			(2) 52,500	(e) 1,147,500			
17									
18	Totals	$5,340,000	$1,915,000	$2,780,000					
19	New Accounts:								
20	Goodwill				(1) 190,000				242,500
21	Raw Mat. Inv. new				(2) 52,500				615,000
22	Goods in process Inv. new				(3) 665,000	(4) 50,000			376,000
23	Fin. goods Inv. new				(3) 260,000	(4) 11,000			
24	Int. on bonds payable				(5) 12,500	(4) 9,000			
25	Depreciation of plant				(6) 102,500			12,500	
26	Profit and Loss				(8) 360,500			102,500	
							$2,462,500	360,500	
27	Liabilities and Capital							$3,125,500	$4,922,500
28	Notes payable	$110,000	$80,000	$60,000			(a) $25,000		$250,000
29	Accounts Payable	100,000	65,000	250,000			(b) 30,000		
30	Bonds payable	500,000							360,000
31	Premium on bonds	9,000			(7) $500				500,000
32	Reserve for Depr.	100,000	60,000	112,500		(6) 102,500			375,000
33	Capital stock	3,000,000	500,000	800,000			(e) 1,300,000		3,000,000
34	Surplus	425,000	160,000	307,500			(e) 532,500		420,500
35	Sales	1,460,000	1,050,000	1,250,000		(8) 360,500	(c) 200,000		
							(d) 375,000		
		$5,340,000	$1,915,000	$2,780,000	(5)	12,500		$3,125,000	
36	Accrued Int. payable				(7)	500			12,500
37	Premium on bonds written off							500	
38					$2,098,500	$2,098,500	$2,462,500	$3,125,500	$4,922,500
39									

Fig. 105: Working Sheet—Problem No. 2

It will be noted that the Consolidated Working Sheet here presented shows adjustments of figures for both the Consolidated Balance Sheet and the Income Statement. The journal entries illustrated were posted to the "Adjustment" columns. The items included in the "Eliminations" columns are as follows:

(a)—$25,000 eliminated from Company A's Accounts Receivable and Company B's Accounts Payable, representing sales by Company B to Company A which were to be deducted from cash advances made by Company A and carried in Company B's Accounts Payable.

(b)—$30,000 eliminated from Company C's Accounts Receivable and Company B's Accounts Payable. This is the balance due on the sale of goods by C to B.

(c)—$200,000 eliminated from Company B's purchases of Raw Material and Company C's Sales. This represented a sale of Raw Material by C to B.

(d)—$375,000 eliminated from Company A's purchases of Raw Material and Company B's Sales. This represented a sale of Raw Material by B to A.

(e)—$1,832,500 eliminates the investment accounts in the Stock of Companies B and C as against their actual Capital Stock and Surplus.

The Consolidated Balance Sheet and the Statement of Income and Profit and Loss follow.

Company "A" and Subsidiaries B & C Consolidated Balance Sheet, December 31 1929

Assets		
Plant & Equipment	$2,050,000	
Less Reserve for depreciation	375,000	$1,675,000
Good Will		242,500
Current Assets:		
Cash	185,000	
Notes receivable	300,000	
*Accounts receivable	905,000	
Total cash and receivables	1,390,000	

*All Accounts Receivable taken over are considered good and collectible.

Inventories:			
Raw materials	615,000		
Goods in process	249,000		
Finished goods	376,000		
Total inventories		1,240,000	
Total current Assets			2,630,000
Total Assets			$4,547,500
LIABILITIES & CAPITAL			
Bonds Payable			500,000
Current Liabilities:			
Notes Payable		250,000	
Accounts Payable		360,000	
Accrued Interest Payable		12,500	
Total Current Liabilities			622,500
Premium on Bonds			4,500
Capital Stock			3,000,000
Surplus			420,500
Total Liabilities & Capital			$4,547,500

Company "A" and Subsidiaries B & C Consolidated Statement of Income and Profit and Loss for the year ended December 31, 1929

	Total	Elim-inations	Consoli-dated
Sales	$3,700,000	$575,000	$3,125,000
Cost of Sales:			
Raw material inv. Jan. 1/29	415,000		415,000
Purchases	1,560,000	575,000	985,000
Total raw material handled	1,975,000	575,000	1,400,000
Raw materials Inv. Dec. 31/29	665,000	50,000	615,000
Cost of materials consumed	1,310,000	525,000	785,000
Labor	1,140,000		1,140,000
Prime cost	2,450,000	525,000	1,925,000
Manufacturing expense	585,000		585,000
Depreciation of plant	102,500		102,500
Total manufacturing charges	3,137,500	525,000	2,612,500

Goods in process inv. Jan. 1/29	225,000		225,000
Total goods processed	3,362,500	525,000	2,837,500
Goods in process inv. Dec. 31/29	260,000	11,000	249,000
Cost of goods manufactured	3,102,500	514,000	2,588,500
Finished goods inv. Jan. 1/29	235,000		235,000
Total available for sale	3,337,500	514,000	2,823,500
Finished goods inv. Dec. 31/29	385,000	9,000	376,000
Cost of Sales	2,952,500	505,000	2,447,500
Gross profit on sales	747,500	70,000	677,500
Selling Expenses	200,000		200,000
Selling Profit	547,500	70,000	477,500
Administrative Expense	105,000		105,000
Net profit on sales	442,500	70,000	372,500
Deductions from Income—Interest payable	12,500		12,500
Net Income	430,000	70,000	360,000
Profit & Loss Credit—Premiums written off	500		500
Net Profit—Surplus for the period	$430,500	$70,000	$360,500

After the preparation of the Consolidated Balance Sheet from the Consolidated Working Sheet, it is a simple process to prepare the Consolidated Income Statement from the same Consolidated Working Sheet. As a final step the consolidated figures are shown after taking into consideration these eliminations.

The summary of the eliminations made is as follows:

1—$575,000 from both Sales and Purchases representing:
$200,000 sales by Company C to Company B
375,000 sales by Company B to Company A

2—$50,000 from Raw Materials Inventory at December 31, 1929 representing:
$20,000 Inter-company Profits in Company A's inventory
$30,000 Inter-company Profits in Company B's Inventory

3—$11,000 from Goods in Process Inventory at December 31, 1929 representing:
- $5,000 Inter-company Profits in Company A's inventory
- $6,000 Inter-company Profits in Company B's inventory

4—$9,000 from Finished Goods Inventory at December 31, 1929 representing:
- $4,000 Inter-company Profits in Company A's inventory
- $5,000 Inter-company Profits in Company B's inventory

5—$70,000 from the Profit is composed of the items described under 2, 3 and 4
- $50,000 Inter-company Profits in Raw Materials Inventory
- $11,000 Inter-company Profits in Goods in Process Inventory
- $9,000 Inter-company Profits in Finished Goods Inventory

Note:No consideration is given adjustments of the Dec. 31, 1928 inventories as the subsidiaries were not acquired until Jan. 1, 1929; therefore no inter-company profits are involved.

Facilitating Preparation of Consolidated Statements

A Holding Company that does an international business operates in the United States partly through its own branch offices and partly through wholly owned subsidiaries.

Outside of the United States, throughout the remainder of the world, except Russia, it operates either through subsidiaries or through its own branches, whichever is more practical depending upon the laws of the particular country under consideration.

In turn the subsidiaries have branches in the country of incorporation and in some cases branches in countries foreign thereto.

Further, a foreign branch office of the Holding Company may operate branches in other foreign countries.

An example of the subsidiary with foreign branches is that of the Argentine Company operating in Argentina, Uraguay, Paraguay and Chile. The problem was further complicated before the development of the air mail service, because Chile lies on the other side of the Andes, which are impassable for periods as long as three or four weeks

in the Winter (which of course is Summer in the United States).

An example of a foreign branch of the Holding Company operating through sub-branches is that of the Far East Branch located in Tokio, Japan having the following branches:

1. Shanghai, China
2. Calcutta, India
3. Manila, P. I.
4. Weltevreden, Batavia

   Operations in Sumatra, Borneo and Celebes Islands are carried on from this office. Branches are maintained in

   (a) Surabaya, Java
   (b) Seoul, Korea

5. Singapore, Straits Settlements, operating in Straits Settlements, Siam, Federated Malay States and French Indo-China.

There are additional complications in the fact that the German Company manufactures a certain product, which is sold to the English and other Continental European companies. The English Company also sells the French Company.

Operations in some Continental European countries are carried on through branches of the Holding Company, but the operations of all Continental Europe including Germany are supervised by the Manager of the French Company for which a fee is charged.

Purchases are made by the Holding Company for all foreign subsidiaries. A fixed per cent of sales is charged each foreign company by the Holding Company for obtaining product, making purchases of supplies, etc.

To facilitate consolidation of statements, a uniform accounting system was adopted for use throughout the world. Each of the men sent to the principal foreign companies as treasurer, was trained for at least two years in the home office of the Holding Company. Furthermore, the New York office of the international accounting firm which audits the books in each foreign country was furnished a copy of the accounting instructions with sample copies of all forms for sources of entries and copies of Income Statements and Balance Sheets to be used with sample entries. Items numbers one, two, three, etc., on the Balance Sheet are the same in all countries; as also are items numbers 1, 2, 3, etc., of the Income statements.

The same fiscal year period for all companies is highly desirable, but not absolutely necessary.

Each Foreign Company is required to furnish a detailed reconciliation of its Surplus account if any changes occur during the month.

At the upper right corner of the Balance sheet, each Foreign Company is required to show the rate of exchange prevailing at end of month. However a flat rate is used the first eleven months of the year and adjusted in the month of December to actual rate.

To save loss or gain on exchange all amounts owing among Foreign Companies are cleared on the Holding Company books thus eliminating actual loss in case payments have been made by transfer of funds.

The Holding Company charges to Foreign Administrative Expense, the salary of the Foreign General Sales Manager, the cost of that portion of the Accounting Department checking and consolidating foreign statements, that portion of salaries of foreign managers paid by it, the cost of cables, etc. On its Income statement it deducts the total Foreign Administrative Expense from the aggregate sum of the Commissions actually received from Foreign Subsidiaries.

The Holding Company maintains a subsidiary Ledger with double debit and credit columns to collate the Commissions because the Commissions are receivable in the currency of the particular country.

An example of the entries is as follows:

On Holding Company's Books

English Company $4,850 (£1000.0.0)
  Deferred Commissions to Income—England $4,850 (£1000.0.0)
    To set up commissions due from English Company
    for month of February, 1930.

When a check is received for commissions the entries are as follows:

Cash $4,857.50 (£1000.0.0)
  English Company $4,850.00 (£1000.0.0)
  Gain on Foreign Exchange 7.50
    February, 1930 commission received from English Company.
Deferred to Income Commissions—England $4,850.00 (£1000.0.0)
  Commissions Earned $4,850 (£1000.0.0)
    To transfer amount earned on English Company.

On English Company's Books

Commissions Deferred £1000.0.0
  New York Company £1000.0.0
    To set up commissions due New York Company
    for month of February, 1930.

When check is issued in payment the following entries are made:

New York Company £1000.0.0
  Cash £1000.0.0

Payment of February, 1930 Commissions.

Commissions £1000.0.0
  Commissions Deferred £1000.0.0
    To transfer amount paid New York Company.

It should be noted that commissions are not charged as expense on the Foreign Company's books nor picked up as earned income on the Holding Company's books until payment is made and received because of the varying tax laws in foreign countries.

The Holding Company requires the foreign company to remit U. S. dollars for purchases made by the Holding Company for the foreign company.

In consolidating, because of distantes and time required for mail to reach New York the Holding Company includes one month less for Foreign Companies than for domestic. For example a consolidated statement may include 10 months Domestic and 9 months Foreign.

A Trial Balance with sufficient perpendicular columns is used so that double columns can be used for each foreign company, the first for the currency of the country and the second for U. S. dollars. A fixed rate for each country is used for conversion purposes, the first 11 months, and adjusted in December to actual rate. Similarly double columns must be used for the elimination of any intercompany accounts.

The Trial Balance work sheet of the Holding Company is set up at the end of the month and each company's Balance Sheet and Income statement is entered on it immediately upon receipt.

After the figures from all but one company or branch have been received, a cross total is taken and the figures from the last company are added when received and the statement completed. By this arrangement the final figures showing the world-wide operation are available two hours after the receipt of the last statement.

CHAPTER XXVIII

MERGER AND OTHER COMBINATIONS

Merger

A merger may be defined as an arrangement whereby a corporation merges or absorbs into itself one or more other corporations, and a contract is generally construed to create a merger rather than a consolidation where it provides that no new corporation is to be created. Although the mere purchase of the assets of one corporation by another does not in itself constitute a merger, it will be treated as a merger if that is the intention of the parties in the absence of statutory prohibition. The mere fact that officers of two companies are the same and that one company owns the controlling stock interest in the other, does not constitute a merger.

The major problem in connection with holding companies is the preparation of Consolidated Statements. The entries upon the books of the purchasing company are simple since they merely represent the transfer of cash or capital stock of the holding company in return for the purchase of all or part of the capital stock of subsidiary companies from their respective stockholders.

The process of merger, however, involves the transfer from one or more companies to another of the assets and liabilities of the companies to be merged. Payments could be made by cash, notes, bond issues, stock issues, etc.

This gives rise to some very interesting entries upon the books of the merging companies.

To illustrate these entries and other accounting procedure the following problem is presented:

Accounting Procedure in Mergers

Three corporations, the Consolidated Tool Co. Inc., the Safety Tool Co. Inc., and the New York Tool Co. Inc., desire to merge their interests. In order to accomplish this it is decided that the Consolidated Tool Company shall purchase the Assets and Liabilities of the other two corporations in accordance with agreed terms.

The balance sheets of the respective companies on the date the merger is effected are as shown in Fig. 105a. The terms of the merger agreement are as follows:

1—The Safety Tool Co. Inc. and The New York Tool Co. Inc. are to pay their dividends to their stockholders.

BALANCE SHEET OF MERGING COMPANIES

JANUARY 2, 1950

	The Consolidated Tool Co., Inc.	Safety Tool Co., Inc.	The New York Tool Co., Inc.	Total
ASSETS				
Cash	$ 700,000.00	$ 500,000.00	$ 250,000.00	$ 1,450,000.00
Notes Receivable	400,000.00	300,000.00	200,000.00	900,000.00
Accounts Receivable	800,000.00	750,000.00	625,000.00	2,175,000.00
Inventories	1,000,000.00	1,250,000.00	950,000.00	3,200,000.00
Machinery & Equipment	1,500,000.00	450,000.00	325,000.00	1,275,000.00
Furniture & Fixtures	600,000.00	725,000.00	650,000.00	1,975,000.00
Land	950,000.00	1,500,000.00	1,250,000.00	3,700,000.00
Buildings	1,750,000.00	500,000.00	400,000.00	2,650,000.00
Investments	750,000.00	450,000.00	300,000.00	1,500,000.00
Sinking Fund	650,000.00			650,000.00
TOTAL	$9,100,000.00	$7,150,000.00	$5,500,000.00	$21,750,000.00
LIABILITIES & CAPITAL				
Notes Payable	$ 150,000.00	$ 100,000.00	$ 60,000.00	$ 310,000.00
Accounts Payable	250,000.00	225,000.00	120,000.00	595,000.00
Mortgage Payable	750,000.00	500,000.00	250,000.00	1,500,000.00
Dividends Payable	60,000.00	90,000.00	40,000.00	190,000.00
First Mortgage 5% Bonds	1,500,000.00	1,000,000.00	500,000.00	3,250,000.00
Reserve for Depreciation of Bldgs. & Equipment	700,000.00	650,000.00	500,000.00	1,850,000.00
Reserve for Bad Debts	80,000.00	75,000.00	60,000.00	215,000.00
Capital Stock	3,000,000.00	2,500,000.00	2,000,000.00	7,500,000.00
Surplus	2,610,000.00	1,800,000.00	1,970,000.00	6,380,000.00
TOTAL	$9,100,000.00	$7,150,000.00	$5,500,000.00	$21,750,000.00

Fig. 105a: Balance Sheet of Merging Companies

2—Their Bonds and Mortgages are to be redeemed by bonds of the Consolidated Tool Co. Inc. in a similar amount. (It is assumed that all accrued interest has been paid to date of merger.)

3—Their Sinking Funds for the First Mortgage Bonds are to remain the same. The policy of setting up Sinking Funds is to be retained by the Consolidated Tool Co. Inc.

4—The Safety Tool Company, Inc. is to receive $6,000,000 in stock of the Consolidated Tool Co. Inc., $3,000,000 in common and $3,000,000 in preferred.

5—The New York Tool Co. Inc. is to receive $5,000,000 in stock of the Consolidated Tool Co. Inc., $2,500,000 in common and $2,500,000 in preferred.

To effect the merger the Consolidated Tool Co. Inc. increases the authorized capital by 55,000 shares of common stock at a par value of $100 each and 55,000 shares of 7% cumulative preferred stock with a par value of $100 each.

It also authorizes an additional issue of 2,500 First Mortgage 5% Bonds.

The entries that will first be considered are those made on the books of the Consolidated Tool Co. Inc.

January 2, 1930.

Common Capital Stock Unissued	$5,500,000	
7% Cumulative Preferred Capital Stock Unissued	5,500,000	
Common Capital Stock Authorized		$5,500,000
7% Cumulative Preferred Capital Stock Authorized		5,500,000

To record the increased authorization of Capital Stock of this corporation, 55,000 shares common and 55,000 shares 7% Cumulative Preferred—par value $100 a share.

January 2, 1930.

First Mortgage 5% Bonds Unissued	$2,500,000	
First Mortgage 5% Bonds Authorized		$2,500,000

To record authorization of 2,500 F. M. Bonds of a par value of $1,000 each.

January 2, 1930.

Safety Tool Company, Inc., Vendor	$6,000,000	
Common Capital Stock Unissued		$3,000,000
7% Cumulative Preferred Capital Stock Unissued		3,000,000

For Stock issued to the above company in accordance with terms of merger agreement.

30,000 shares Common Capital Stock	$3,000,000
30,000 shares 7% Cumulative Preferred Capital Stock	3,000,000
Total	$6,000,000

January 2, 1930.

The New York Tool Company, Inc., Vendor	$5,000,000	
Common Capital Stock Unissued		$2,500,000
7% Cumulative Preferred Capital Stock Unissued		2,500,000

For stock issued to the above company in accordance with terms of merger agreement.

25,000 shares Common Capital Stock	$2,500,000
25,000 shares 7% Cumulative Preferred Capital Stock	2,500,000
Total	$5,000,000

January 3, 1930.

Cash	$ 450,000	
Notes Receivable	300,000	
Accounts Receivable	750,000	
Inventories	725,000	
Machinery & Equipment	1,250,000	
Furniture & Fixtures	450,000	
Land	725,000	
Buildings	1,500,000	
Investments	500,000	
Sinking Fund	450,000	
Good Will	1,700,000	
Notes Payable		$ 100,000
Accounts Payable		225,000
Mortgage Payable		500,000
First Mortgage 5% Bonds		1,250,000
Reserve for Depreciation of Buildings & Equipment		650,000
Reserve for Bad Debts		75,000
Safety Tool Co. Inc.—Vendor		6,000,000

To record the taking over of the Assets and Liabilities of the Safety Tool Co. Inc. at an agreed price of $6,000,000. The excess of purchase price over the "Net Asset" value is set up as good will.

January 3, 1930.

Cash	$ 210,000	
Notes Receivable	200,000	
Accounts Receivable	625,000	
Inventories	550,000	
Machinery & Equipment	950,000	
Furniture & Fixtures	325,000	
Land	650,000	
Buildings	1,250,000	
Investments	400,000	
Sinking Fund	300,000	
Good will	1,030,000	
Notes Payable		$ 60,000
Accounts Payable		120,000
Mortgage Payable		250,000
First Mortgage 5% Bonds		500,000
Reserve for Depreciation of Buildings & Equipment		500,000
Reserve for Bad Debts		60,000
The New York Tool Co. Inc., Vendor		5,000,000

To record the taking over of the Assets & Liabilities of the New York Tool Co. Inc. at an agreed price of $5,000,000. The excess of purchase price over the "Net Asset" value is set up as Good Will.

January 3, 1930.

Mortgages Payable	$ 750,000	
First Mortgage 5% Bonds	1,750,000	
First Mortgage 5% Bonds Unissued		$2,500,000

To record the retirement of the mortgages and bonds taken over from the Safety Tool Co., Inc. and the New York Tool Co., Inc. through the issuance of a like amount of bonds of this company.

If at this point a balance sheet of the Consolidated Tool Co., Inc. were prepared it would appear as follows:

THE CONSOLIDATED TOOL CO., INC.
BALANCE SHEET
AS AT JANUARY 3, 1930.

ASSETS		
Cash	$1,360,000	
Notes Receivable	900,000	
Accounts Receivable	2,175,000	
Inventories	2,275,000	
Machinery & Equipment	3,700,000	
Furniture & Fixtures	1,375,000	
Land	2,325,000	
Buildings	4,500,000	
Investments	1,650,000	
Sinking Fund	1,400,000	
Good will	2,730,000	
Total Assets		$24,390,000
LIABILITIES AND CAPITAL		
Notes Payable	$ 310,000	
Accounts Payable	595,000	
Mortgage Payable	750,000	
Dividend Payable	60,000	
First Mortgage 5% Bonds	4,000,000	
Reserve for Depreciation of Buildings & Equipment	1,850,000	
Reserve for Bad Debts	215,000	
Common Capital Stock	8,500,000	
Preferred Capital Stock	5,500,000	
Surplus	2,610,000	
Total Liabilities & Capital		$24,390,000

The closing entries that would be made on the books of the Safety Tool Co., Inc. are shown below. The entries to be made on the books of the New York Tool Co., Inc. are not illustrated as they would be similar in form to those of the Safety Tool Co., Inc.

January 2, 1930.

Dividends Payable	$50,000	
Cash		$50,000

To record payment made to stockholders of the dividend due.

January 3, 1930.

Good Will	$1,700,000	
Surplus		$1,700,000

This corporation has today agreed to sell its "Net Assets" to the Consolidated Tool Co., Inc. for $6,000,000. The good will allowed as per agreement is recorded herewith.

January 3, 1930.

Notes Payable	$100,000	
Accounts Payable	225,000	
Mortgage Payable	500,000	
First Mortgage 5% Bonds	1,250,000	
Reserve for Depreciation of Machinery & Equipment	650,000	
Reserve for Bad Debts	75,000	
The Consolidated Tool Co., Inc.	6,000,000	
Cash		$ 450,000
Notes Receivable		300,000
Accounts Receivable		750,000
Inventories		725,000
Machinery & Equipment		1,250,000
Furniture & Fixtures		450,000
Land		725,000
Buildings		1,500,000
Investments		500,000
Sinking Fund		450,000
Good will		1,700,000

To record the transfer of the Assets and Liabilities to the Consolidated Tool Co., Inc.

January 3, 1930.

Common Capital Stock—Consolidated Tool Co. Inc.	$3,000,000	
7% Cumulative Preferred Stock—Consolidated Tool Co., Inc.	3,000,000	
The Consolidated Tool Co., Inc.		$6,000,000

To record receipt of 30,000 shares of each class of stock shown above in settlement of sale of "Net Assets" as per merger agreement.

January 3, 1930.

Surplus	$3,500,000	
Capital Stock	2,500,000	
Common Capital Stock—Consolidated Tool Co. Inc.		3,000,000
7% Cumulative Preferred Stock—Consolidated Tool Co. Inc.		3,000,000

To record allotment of stock of the Consolidated Tool Co. Inc. to stockholders of this company.

Other Methods of Combination

There are other methods in addition to the statutory methods of consolidation and merger by which combinations are effected. For example, a procedure often confused with consolidation or merger and to which each of these terms has been loosely applied in financial and business parlance is where the managements of two corporations desire to unite them, incorporate a new company and sell all of the assets of both companies to the one newly organized, the old companies accepting stock for the property. This is not a consolidation under the statutes of most states, and the new corporation is liable for debts of the old companies only to the extent of the property transferred. In a true consolidation, the articles of consolidation, as in the case of a certificate of incorporation must follow statutory language and the new corporation is brought into existence as a part of this procedure. All statutory provisions must be carefully complied with. Such a combination as that described differs from merger, under the statutes of many states in that a new corporation must be formed, whereas the statutory procedure incident to merger usually assumes the absorption by an established corporation of one or more other companies, as described in the preceding pages. However, the accounting for such a combination does not differ from that of the merger shown in the preceding problem except in respect to the capital stock entries. All subsequent entries would be made in a manner similar to that presented.

Purchase or Lease

Frequently combinations are effected by the purchase of all of the property of another company or the leasing of the property of another company by a corporation with the practical result of either a consolidation or a merger, but unless the transaction falls within the definition of consolidation or merger as laid down by the statute such transactions will not constitute consolidations or mergers in the eye of the law, even though the parties themselves so intended. It has been held, however, that where one company exchanges its shares for the property of another company and the shares are distributed among the stockholders of the selling company there is a consolidation, on the theory that consolidation was what was intended, whether it was so called or not, and the law governing consolidation was the only law applicable. Usually, however, the effect is held merely to make the purchaser liable for debts of the vendor

corporation to the extent of the value of the property received from the seller. Strictly speaking, the use of the word "consolidation" in such a connection is a misnomer, since no new company is created.

While a practical consolidation of corporations, as where one company leases all of its property for the term of 99 years, may be accomplished by a lease the true nature of the transaction is not a consolidation or a merger.

Combination Through Process of Leasing

In order to save delay in building operations or possibly to eliminate competition, what amounts to a consolidation is sometimes effected through the medium of leasing property.

The lessor gives up the use of the property for a period of years in exchange for a stipulated return.

In most cases during the period of the lease, the lessee is responsible for taxes, and upkeep of the property. For that reason the lease is generally made to run for a long period of years. Short term leases usually carry the privilege of renewal.

Transportation companies are among the chief users of this method of consolidation.

The lessor continues to own the property and the lessee is usually obligated to return the property at the end of the lease period in a condition similar to that in which it was received.

Care should be taken when leases are drawn to have a clear understanding between both lessor and lessee regarding permanent improvements to property and items of like nature.

As an illustration of the accounting procedure in connection with leasing property the following problem is given.

The Newark Mfg. Co. Inc. leases the plant and property of the Manhattan Machinery Co. for a period of fifty years. The land is valued at $500,000 and the building and equipment at $1,250,000.

The Newark Mfg. Co., Inc. agrees to pay 6% annually on the capital stock of the Manhattan Machinery Company, which stock has a par value of $1,500,000.

In order to adapt the plant to its special needs the lessee finds it necessary to make improvements totaling $50,000 and to secure funds for which it gives a 6% mortgage on another plant which it owns; the mortgage is due and payable in five years.

The entries covering these transactions would appear

on the books of the Newark Manufacturing Company, Inc. (lessee) as follows:

February 1, 1929.

Leased Properties—Manhattan Machinery Company, Inc.	$1,750,000	
The Manhattan Machinery Company Inc. Lease Account		$1,750,000

To record taking over land value at $500,000 and Buildings and Equipment at $1,250,000 on a fifty year lease.

February 1, 1929.

Cash	$50,000	
Mortgage Payable		$50,000

To record receipt of cash against mortgage issued on our Long Island City plant.

March 15, 1929.

Improvements on Leased Property of Manhattan Machinery Company	$50,000	
Cash		$50,000

(Explanation in full detail as to nature of improvements would be given here.)

At the end of the fiscal year, the lessee would make the following entries:

January 31, 1930.

Operating Expenses—Manhattan Machinery Co. Inc. Leased Properties	$1000	
Improvements on Leased Property of Manhattan Machinery Co. Inc.		$1000

To write off 1/50 of improvements of $50,000 made to the leased properties, life of lease 50 years.

Operating Expenses—Manhattan Machinery Co. Inc. Leased Properties	$90,000	
To Manhattan Machinery Company		$90,000

For guaranteed yearly payment of 6% on the Capital Stock of the Manhattan Machinery Co. Inc. the par value of which is $1,500,000.

February 1, 1930.

Manhattan Machinery Company, Inc.	$90,000	
Cash		$90,000

To record payment due Manhattan Machinery Co. for agreed annual dividend on its Capital Stock.

It will be noted that the improvements to the leased properties are written off over the life of the lease as a part of the operating costs.

The yearly dividend of 6% on the capital stock of the Manhattan Machinery Company, Inc. is also considered as part of the cost of operations.

On the books of the Manhattan Machinery Co. Inc. (lessor) the following entries would appear:

February 1, 1929.

Land, Buildings & Equipment Leased to the Newark Manufacturing Co., Inc.	$1,750,000	
Land		$ 500,000
Buildings & Equipment		1,250,000
To record lease of the above mentioned properties to the Newark Manufacturing Co., Inc. as per agreement, etc.		

February 1, 1929.

Cash	$90,000	
Income from leased properties		$90,000
To record receipt of yearly payment of 6% on the $1,500,000 of Capital Stock of this Corporation received from the Newark Mfg. Co. Inc. for use of leased properties.		

Each year during the life of the lease the Newark Mfg. Company, Inc. (lessee) would set up similar entries for "operating costs," as shown, and in addition, of course, the entry for the interest payable on the mortgage covering its Long Island plant.

Annually also over the life of the lease the Manhattan Machinery Company, Inc. would record the receipt of the "Income from Leased properties."

At the expiration of the lease the properties would be returned to the Manhattan Machinery Company, Inc. at which time both parties to the lease would reverse the entries set up on February 1, 1929, which recorded the transfer of the properties under the lease agreement.

CHAPTER XXIX

REORGANIZATION AND CAPITAL READJUSTMENT

The term reorganization is used generally to signify the various proceedings and transactions by which a succession of corporations is brought about and also proceedings by which existing corporations are continued under a different organization without the creation of a new corporation. As a rule a reorganization is accomplished by the organization of a new company to take over the property and franchises of an old company, whereupon the existing corporation is dissolved. The usual legal significance of the term is in connection with the foreclosure of corporate mortgages or in connection with other judicial or execution sales of the corporate property by corporation creditors. A reorganization should be distinguished from consolidation and merger in that in the case of consolidation there are two or more existing corporations which consolidate by the creation of a new corporation, and in the case of a merger one existing company is merged in another existing company; whereas in the case of a reorganization there occurs merely a change in form in the corporation, usually by the creation of a new corporation which is its successor. Reorganization should also be distinguished from statutory procedures resulting in the mere change of the name, amendment, extension or revival of the charter, or reincorporation of an existing corporation.

Right to Reorganize

The right to reorganize involves a number of factors depending upon the particular facts and circumstances. The provisions of the state statute regulating reorganization must be carefully examined for requirements applicable to the case in hand, and if the reorganization is pursuant to sale under foreclosure of mortgage the application of the terms of the mortgage must be carefully scrutinized. Although reorganizations in connection with foreclosure sales under a mortgage or deed of trust are usually the subject of express statutory authorizations, readjustments of conflicting interests of bondholders and stockholders may be made by agreements between the parties interested without involving the enforcement of legal remedies. Such readjustments should be distinguished from reorganization,

although the term reorganization is loosely used to include them. As stated by a judge in a United States court decision, "Corporations insolvent or financially embarrassed often find it necessary to scale their debts and readjust stock issues with an agreement to conduct the same business with the same property under a reorganization. This may be done in pursuance of a private contract between the bondholders and stockholders, and though the corporate property is thereby transferred to a new company having the same shareholders the transaction would be binding between the parties."

Rights of Bondholders and Stockholders

If the reorganization is pursuant to a judicial sale of mortgaged property the bondholders are usually the parties chiefly concerned and they take the initiative in the plan of reorganization. Usually all of the bondholders are invited to participate in the plan of reorganization which ordinarily involves taking bonds in the new company in place of the old bonds. If a bondholder does not take advantage of the opportunity to join in the agreement his only right is to participate in the proceeds of the sale. If the agreement or the purchase is fraudulent or in bad faith non-consenting bondholders may have the sale set aside. If a sale under foreclosure proceedings is not involved and the reorganization is sponsored by stockholders, all those stockholders are usually given the right to participate. If part of the stockholders dissent the validity of the arrangement may depend upon whether the transfer is for an adequate consideration and in good faith, or whether it is actually a fraud as against the non-assenting stockholders. Irrespective of the question of reorganization, the question of whether a corporation or its majority stockholders may transfer all of its property is a matter largely regulated by statute. If all of the stockholders consent the only objectors would be the creditors of the old company who have the right to follow the property as a fund for the payment of their debts. If a part of the stockholders dissent but there is no fraud, it would seem that by the weight of authority a majority of the stockholders may reorganize, where they act in good faith, by purchasing the property at its fair value. Thus, it has been held that where a corporation is insolvent, minority stockholders who refuse to coöperate to furnish additional capital cannot complain of a sale of all of the assets of the company to a new corporation created by the majority stockholders for an amount sufficient to pay all the creditors, where the minority stockholders fail

to accept the opportunity to become stockholders in the new company on the same basis as the majority stockholders. Under the New York Statute holders of two-thirds of the stock of a corporation may sell its property to a domestic corporation engaged in a business of the same general character, and this has been held to authorize a sale by one company to a new company organized to take over the property of the old company, even against the objection of minority stockholders, if authorized by at least two-thirds of the stock, where the majority act in good faith, and that a dissenting stockholder should be limited to receiving shares in the new company or to the recovery of the value of his stock.

Rights of Unsecured Creditors

The unsecured creditors of the corporation have the right to have all the assets of the company applied in payment of their claims subject to the satisfaction of debts secured by lien. An agreement, however, between the bondholders and stockholders which provides that stockholders are to receive rights in the new corporation, whereas unsecured creditors are not provided for, will not be sustained. As stated by Justice Brewer, "No foreclosure proceedings can be rightfully carried to consummation which recognize and preserve any interest in the stockholders without also recognizing and preserving the interests not merely of the mortgagee but of every creditor of the corporation. In other words, if the bondholder wishes to foreclose and exclude inferior lien holders or general unsecured creditors and stockholders, he may do so, but any foreclosure which attempts to preserve any interest or right of the mortgagor in the property after the sale must necessarily secure and preserve the prior rights of general creditors thereof. This is based upon the familiar rule that the stockholders' interest in the property is subordinate to the rights of creditors; first of secured and then of unsecured creditors, and any arrangement of the parties by which the subordinate rights and interests of the stockholders are attempted to be secured at the expense of the prior rights of either class of creditors comes within judicial denunciation. ****** It is one thing for a bondholder who has acquired absolute title by foreclosure to mortgaged property to thereafter give of his interest to others, and an entirely different thing whether such bondholder, to destroy the interest of all unsecured creditors, to secure a waiver of all objections on the part of the stockholders, and consummate speedily the foreclosure, may proffer to them an interest in the property after the

foreclosure. The former may be beyond the power of the courts to inquire into or to condemn. The latter is something which on the face of it deserves the condemnation of every court and should never be aided by any decree or order thereof. It involves an offer, a temptation, to the mortgagor, the purchase price thereof to be paid not by the mortgagee but in fact by the secured creditors.

"The weight of judicial opinion, therefore, is that a foreclosure sale under a consent decree is void as to non-assenting creditors of the mortgagor, even in the absence of fraud in respect to the decree, where made pursuant to a contract of reorganization which preserves an interest of stockholders without preserving the interest of unsecured creditors of the corporation."

Reorganization Procedure

Reorganization plans are usually first considered after a default occurs in respect to an important obligation. The necessity for devising such plans, however, becomes apparent when it is recognized that such a default is certain to happen. The unfavorable condition of the company directs the attention of the bankers or others interested in the company's securities to the possibility of the appointing of a receiver, and makes plain the advisability of taking reorganization measures which will protect the interests of all concerned.

Protective Committees

Usually the first step is the appointment of the committee or committees to represent security holders. If there are many classes of securities there will probably be a number of these committees, although it is not considered proper for any one committee to represent security holders of more than one class. Ordinarily the membership of a committee is composed of large holders of the security of the class which the committee are to represent. In view of the fact that many of the security holders, as in the case of bond and note issues, in bearer form, are not readily ascertainable, they must be reached through advertising. After the committee is formed and an organization meeting held, at which a chairman is elected and depositary selected, it prepares a form of deposit agreement and arranges for the publishing of a notice to the security holders concerned. It is usually necessary that a certain amount of the securities be deposited in order that the plan to be recommended by the committee shall succeed. The form of the notice varies with

the circumstances, but all such notices are alike in that they state the necessity for group action, pursuant to which the protective committee invites the holder to deposit his securities with a designated depositary, and advises him that copies of the deposit agreement may be had on application to the depositary.

The deposit agreement sets forth the terms of the contract between the depositary and the depositing security holders and provides that the depositors shall receive in exchange for the securities so deposited certificates of deposit which are transferable. The agreement defines the terms and conditions under which securities may be withdrawn and provides that the depositor shall be notified of the plan of reorganization as soon as it has been definitely decided upon.

If the securities represented by certificates of deposit have been listed on the New York Stock Exchange, application is usually made to list the certificates of deposit in order that a market for the certificates may be maintained for trading purposes. The market quotations are usually lower for the certificates of deposit than those prevailing for the securities themselves because the certificates of deposit are subject to a pro rata share of the expenses and compensation of the protective committee and of the depositary. It becomes a matter of choice on the part of the security holder whether to take advantage of the invitation of the committee within the time prescribed, or whether to sell his securities, thereby suffering an immediate loss. If the certificates of deposit are to be listed an independent registrar will have to be appointed, pursuant to the rules prevailing on practically all stock exchanges. All certificates of deposit must then be submitted to the registrar whose duties are similar to those of a registrar of stock.

A situation may develop whereby a holder of securities who has deposited them with a depositary representing a certain protective committee may be convinced that he would prefer to coöperate with another committee organized to represent the same class of securities. Under such circumstances it would be necessary for him to deposit his certificate of deposit with the depositary nominated by the second committee. In such a case it would be important to ascertain that the provisions for withdrawal would permit the use of the securities in time to be effective in connection with the program of the second committee.

Reorganization Committee

In contradistinction to the use of the term protective committee the designation applied to the committee repre-

senting all classes of security houses is "Joint Reorganization Committee." This committee is composed of members of the various protective committees and the chairman is usually the largest holder of securities of the class which holds the dominant position. Members of the joint reorganization committee report to their respective protective committees upon the progress of the efforts to arrive at a plan of reorganization suitable to all classes of security holders.

Giving Effect to the Reorganization Plan

In by far the greater number of cases the circumstances of the reorganization embrace the foreclosure of a mortgage lien. In addition to compliance with all of the terms of the reorganization agreement any conditions prescribed in the indenture of the original mortgage must be precisely carried out. In the event of a foreclosure sale, usually there will be offered by way of purchase price for the property securities which have been deposited under the agreements between the protective committees and security holders. If these securities do not in the aggregate equal the amount of secured indebtedness a deposit of cash must be made to make up the difference. Ordinarily instead of the deposit of the securities themselves certificates of deposit issued by the respective depositaries are accepted as satisfactory evidences of title to the security by the court officer conducting the sale. The usual practice is for the trustee to release the lien on the mortgage as soon as the securities, or certificates of deposit, and any additional cash sum required to make up the balance of the obligation of the mortgagor, are in the possession of the court.

The new company, organized pursuant to the reorganization agreement for the purpose of carrying on the business will be ready at this point to take over the assets transferred at the foreclosure sale, and to issue its securities in exchange therefor. The new securities are delivered by the reorganization committee to the depositary in order that these securities may be exchanged for the certificates of deposit which will be cancelled upon their surrender by the depositors.

Requirement of Contribution

The different types of securities will occupy entirely different positions of rank in respect to the reorganization plan. Naturally the secured creditors, whose claims would be settled in full in any event, are in a position to dictate to other participants such as the common stockholders whose rights might be extinguished were it not for the opportunity afforded by the reorganization plans. When therefore it becomes necessary to arrange for a fund to be used in putting the business upon a sound foundation it will usually be the common stockholders who will be required to make these contributions. In return for such cash payments these stockholders will receive a security of the new company which will occupy a comparatively strong position and in addition they will be given in exchange for their former holdings a security of inferior rank such as common stock. Where contributions are required to be made as a condition of participation in the plan the conditions are set forth in full in the agreement of reorganization.

Corporate Readjustments

As distinguished from reorganization made necessary because of the dominant position of lien creditors under mortgages, in respect to which there is about to occur or there has occurred a default, corporate readjustments of various kinds may take place without foreclosure or without any court proceedings being involved. In some instances, it is true that the condition of the corporation might result in a receivership if such salutary action were not taken. In many cases, however, the arrangements for readjustment of interest are not initiated because of a desire to avoid involuntary reorganizations. Frequently the bankers, who have underwritten an issue and must maintain a market for the security, and who are accordingly alert to the business and financial changes in the status of the company, will deem it advisable to suggest a plan of readjustment as necessary for the best interest of all concerned. Under such circumstances the plan is usually worked out in detail before it is submitted to the security holders. In other respects, however, the machinery for carrying through the readjustment program is practically identical with that of a true reorganization. One apparent difference consists in the fact that since lien creditors are not necessarily involved and, therefore, the rights of junior securities holders are not in danger of being wiped out at execution sale, some of these holders may not be willing, and they cannot be forced, to accept the proposed new basis of readjustment. Accordingly, due provision must be made for taking care of non-assenting security holders by purchase of their interest or otherwise, as an essential feature of the readjustment program.

Subscription Rights

Under the common law existing stockholders of the corporation must be permitted to subscribe to any new issues. The rule has been extended in a number of the states to the point of requiring that the old stockholders be given the option to purchase the new shares at par, *pro rata* to their holdings. Subscription rights are the result of increase in capitalization which procedure is regulated in detail by the various state laws.

Statutory provisions and rules of law relative to subscription offerings must be carefully complied with. Although there has been considerable discussion as to the soundness of the doctrines enunciated by the courts in connection with subscription privileges, it may be accepted as the general rule that before stock can be sold to outsiders it must be offered to the old stockholders.

Procedure in "Rights" Issues

It may be necessary in order to prepare the way for the issuance of privileged offerings especially in cases where the stock has a par value and is selling below par, to secure an amendment to the charter whereby the capitalization of the corporation is increased and the issuance of no par value stock is authorized.

Subsequently the offering is announced to stockholders pursuant to a resolution of the board of directors and if the original stock has been underwritten and perhaps listed, it may be desirable to have an underwriting of the "rights" offering and to make an application for listing of the rights "when issued."

The next problem for the officers or the executives of the corporation to solve is the setting up of the internal system for handling warrants, especially if the corporation has an extensive list of stockholders.

Determining Value of Stock "Rights"

To illustrate how the value of stock "rights" is figured, let us assume that the present capital of a corporation is $250,000 consisting of 2,500 shares having a par value of $100 each. The company wishes to increase its capital stock to $300,000, each share to have a $100 par value. Assume that the stock is selling at $140 per share and that the present stockholders are given the privilege of buying the new shares at $120 and are permitted to subscribe to one-fifth of the number of shares now held.

The formula used in figuring the value of the right is as follows:

$$\frac{\text{Market price—Offering price}}{\text{Number of old shares required for subscription to 1 new share} + 1} = \text{Value of right}$$

Applying the formula to the case under consideration:

$$\frac{140—120}{5 + 1} = \frac{20}{6} = \$3.33$$

To check the result, the market value of 2,500 shares at $140 per share is $350,000. Price of 500 shares at $120 to present holders is $60,000, so that the aggregate capital value is $410,000, which divided by 3,000 shares gives a value per share of $136.66. Subtracting the price per share to present holders, $120.00 leaves a value of $16.66 for five rights or $3.33 for each right.

Accounting Procedure in Reorganization

To exemplify the accounting procedure incident to reorganization, it is the intention to cover only such reorganizations as are arranged pursuant to agreement. To epitomize the discussion in the preceding pages there are usually two kinds or methods of reorganization by agreement.

No. 1. The first method embraces a plan for readjustment of the rights of the various parties to the agreement:

(a) The stockholders
(b) The bondholders
(c) Other creditors

Under this method of reorganization no new corporation is formed.

No. 2. Under the second method a new corporation is formed. The procedure of reorganization is:

(a) Agreement is entered into by the different companies involved in the forming of the new corporation. Approval of course of stockholders, bondholders and other creditors is formally received (by stock purchase, issuance of bonds, etc.).

(b) The new corporation acquires all the property of the old corporations.

THE ROBINSON MACHINERY MANUFACTURING CO

GENERAL BALANCE SHEET AS OF DECEMBER 31, 1929.

Assets	Before Adjustments are Effected	After Adjustments have been made	Liabilities	Before Adjustments are Effected	After Adjustments have been made
Current Assets			**Current Liabilities**		
Cash in Banks	$ 96,725 00	$ 96,725 00	Taxes Accrued		
Notes Receivable	125,200 00	125,200 00	Interest Accrued on Bonds (Issue of January 1, 1930)	$ 25,000 00	$ 25,000 00
Accounts Receivable	310,000 00	310,000 00	Notes Payable	25,000 00	25,000 00
Finished Product	142,000 00	142,000 00	Accounts Payable	98,450 00	98,450 00
Work in Process	110,500 00	110,500 00	Dividends Declared	125,930 00	125,930 00
Raw Materials & Supplies	74,780 00	74,780 00	(For last half year)	15,000 00	15,000 00
Total Current Assets	858,205 00	858,205 00	Total Current Liabilities	289,380 00	289,380 00
Capital Assets			**Capital Liabilities**		
Machinery & Equipment	934,950 00	934,950 00	First Mortgage 5% Bonds	1,000,000 00	1,000,000 00
Tools - Regular	109,430 00	109,430 00	Total Capital Liabilities	1,000,000 00	1,000,000 00
Patterns & Special Tools	174,840 00	74,840 00			
Auto Trucks	74,840 00		**Reserves**		
Total Capital Assets	1,294,170 00	1,119,220 00	For Depreciation of Machinery & Equipment	52,000 00	52,000 00
Other Assets			For Depreciation of Tools - Regular	25,750 00	25,750 00
Sinking Fund for First Mortgage 5% Bonds	350,000 00	350,000 00	For Patterns & Special Tools	74,950 00	
Patents and Trade Marks	154,275 00	154,275 00	For Auto Trucks	17,320 00	17,320 00
Investments in Subsidiary Companies	1,000,000 00	1,000,000 00	For Doubtful Notes & Accounts Receivable	35,475 00	35,475 00
Goodwill	400,000 00		Total Reserves	205,495 00	130,545 00
Total Other Assets	1,904,275 00	1,504,275 00	**Capital Stock Issued**		
Deferred Charges			Preferred - 6% Cumulative ($100 Par)	500,000 00	500,000 00
Insurance Unexpired	12,500 00	12,500 00	Common ($100 Par)	2,000,000 00	1,000,000 00
Interest Paid in Advance	25,725 00	25,725 00	Total Capital Stock Issued	2,500,000 00	1,500,000 00
Total Deferred Charges	38,225 00	38,225 00	Surplus	100,000 00	600,000 00
Total Assets	$4,094,875 00	$3,519,925 00	Total Liabilities & Capital	$ 4,094,875 00	$ 3,519,925 00

Fig. 106: Balance Sheet of Robinson Manufacturing Company (Showing Reduction of Capital Stock)

Reduction of Capital Stock

To illustrate the accounting procedure necessary to record the reduction of capital stock of a corporation the following problem is set forth:

The Robinson Machinery Mfg. Co. was formed by the merger of several companies engaged in the same line of business. When the combination of interests was formed, good will to the amount of $400,000 was acquired and in addition to this item certain assets of questionable value to the new corporation were also acquired. The balance sheet of the company as of December 31, 1929 was as shown in Fig. 106.

The management is desirous of having any accounts of doubtful value reduced to their true worth. With this end in view an appraisal is made of the properties and the accounts audited. The joint report of the appraisers and the accountants is received; in substance this recommends that the following accounts be written off:

Good will	$400,000
Patterns and Special Tools (net)	100,000

At a special meeting of the stockholders called for the purpose of considering the recommendations of the examiners it was decided:

(a) To write off the entire good will of $400,000 and the patterns and special tools now carried at a net value of $100,000, and

(b) Also in order to increase the surplus, the capital stock common is to be reduced to $1,000,000.

(c) The cumulative preferred stock to remain as stated on books.

Notes

1. It is required, of course, to obtain the necessary charter amendment from the State for the reduction of the capital stock common from $2,000,000 to $1,000,000. The application is made and the reduction as requested is granted.
2. Complete minutes of the proceedings and resolutions of the directors' and the stockholders' meetings must be properly recorded.
3. All the certificates of stock covering the original issue of $2,000,000 capital stock common must be turned into the corporation. Receipts are given to the stockholders which call for de-

livery of the new stock of $1,000,000 which will be issued at a later date.

4. The new capital stock common will be issued on the basis of one share of new stock for every two shares of the old stock cancelled.
5. Each holder will therefore own 50% of his former holdings.
6. This does not operate to the disadvantage of the stockholders. Although the stock has been reduced, the corporation's actual net worth is not less than before the new arrangement. The shares in fact as far as value is concerned are now higher than par as may be readily seen from the tabulation below.
7. The preferred stock remains at the same value of $100 a share. The tabulation sets forth the value of the common stock per share before the adjustment and after the plan of reorganization is effected:

	Net Worth of Corporation	
	On Old Basis	Under New Plan
Common Capital Stock	$2,000,000	$1,000,000
Surplus (to Common Capital Stock)	*100,000	600,000
Total	$2,100,000	$1,600,000
Deduct Preferred Capital Stock Equity	500,000	500,000
Equity to Common Capital Stock	$1,600,000	$1,100,000
Number of Shares Common Capital Stock	20,000	10,000
Common Capital Stock-Book Value Each Share	$80	$110

The new arrangement tends to increase the par value of shares of common capital stock, whereas before the reorganization plan, this stock was worth only $80 a share (lower than par). The stockholders have received a lesser

*This is after the deduction from Surplus of 6% dividend for half year on preferred stock which is shown on books as "Dividends Payable." Therefore all surplus remaining belongs to common stock.

number of shares than they formerly held, but the financial structure of the company has been considerably strengthened.

Adjustment Entries After Capital Reduction

The following entries are all that are necessary in order to adjust the Capital Stock Common, Surplus, Good Will and Patterns and Special Tools:

Reserve for Depreciation of Patterns & Special Tools	$74,950	
Patterns & Special Tools		$74,950
To transfer reserve in order to reduce asset to net value.		
Surplus	$500,000	
Good Will		$400,000
Patterns & Special Tools		100,000
To write off above mentioned assets in accordance with resolutions adopted at Board of Directors' and stockholders' meetings, etc.		
Capital Stock Common	$1,000,000	
Surplus		$1,000,000
To record amendment to charter, approved by Board of Directors and stockholders at meetings, etc., and passed upon by State authorities, for reduction of common capital stock from 20,000 shares of par value of $2,000,000 to 10,000 shares of par value of $1,000,000.		

It will be noted that the net difference resulting from these entries produces an increase of surplus of $500,000. This amount added to the original amount of $100,000 makes the final surplus, after adjustment, $600,000.

Another method of entry to record the facts would be to close out the old capital stock common account and open a new account for only the reduced or amended amount. The entry, in consolidated form, is as follows:

Capital Stock Common	$2,000,000	
Capital Stock Common		$1,000,000
Good Will		400,000
Patterns & Special Tools		100,000
Surplus (Additional)		500,000
To record change in charter, reducing capital stock common to $1,000,000, approved by, etc.		

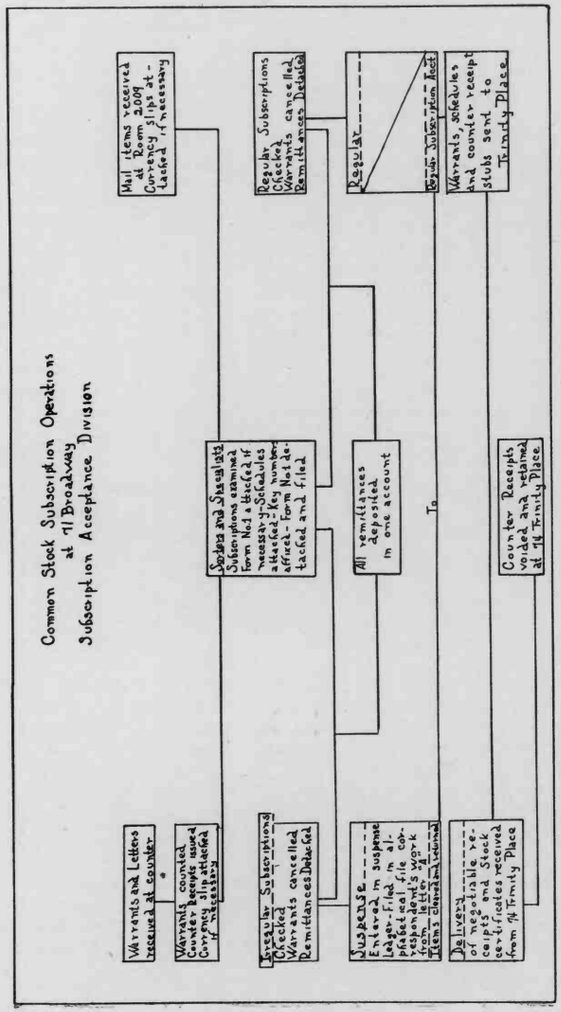

Common Stock Subscription Operations
at 71 Broadway
Subscription Acceptance Division
Mail items received at Room 2009
Currency slips attached if necessary
Warrants and Letters issued at counter
Warrants counted
Counter receipts issued
Currency slip attached if necessary
Orders and Checklists
Subscriptions examined
Form No. 1 checked if necessary-Schedules attached-Key numbers affixed-Form No. 1 detached and filed
Regular Subscriptions
Checked
Warrants cancelled
Remittances Detached
Regular
Regular Subscriptions
Checked
Warrants cancelled
Remittances Detailed
Suspense
Entered in suspense ledger-Filed in alphabetical file copy of letter sent to subscriber
Items Unidentified
All remittances deposited in one account
To
Regular Subscription Rec't
Warrants, schedules and counter receipt stubs sent to Trinity Place
Delivery of negotiable receipts and Stock certificates received from 71 Trinity Place
Counter Receipts voided and returned at 71 Trinity Place

Fig. 107: Chart Showing Process of Handling Privileged Stock Subscriptions

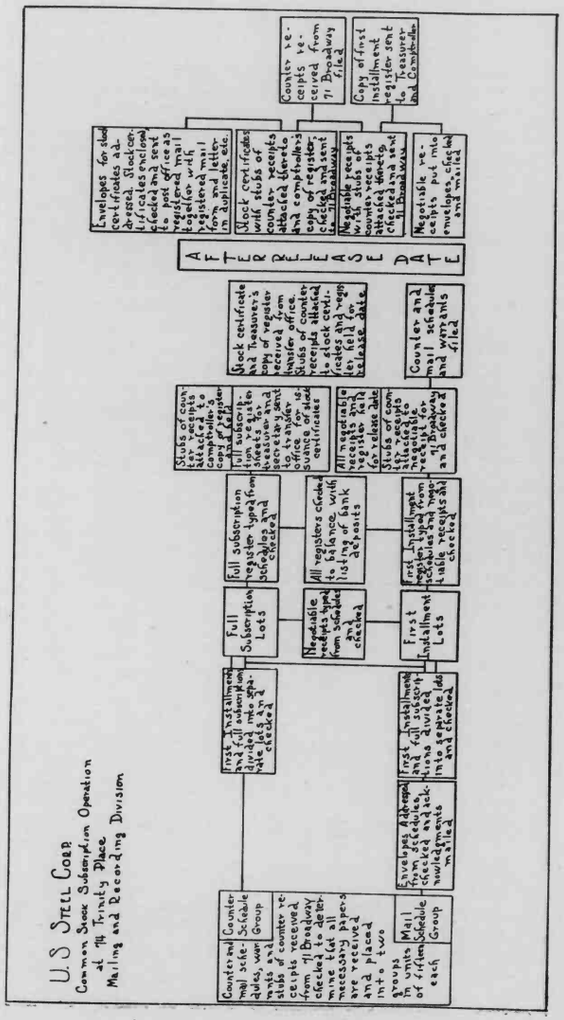

U.S. Steel Corp
Common Stock Subscription Operation
at 71 Trinity Place
Mailing and Recording Division
Counter and Mail schedules, warrants and stubs of counter receipts received from 71 Broadway checked to determine that all necessary papers are received and placed into two groups
Counter and Mail Schedules, each Group
Envelopes addressed from schedules, checked and stuffed with warrants mailed
First Installment and full subscriptions divided into separate lots and checked
Full Subscription Lots
First Installment Lots
Full subscription register typed from schedules and checked
First installment register typed from schedules and negotiable receipts checked
Negotiable receipts detached from schedules and checked
All registers checked to balance with listing of bank deposits
Stubs of counter receipts detached to form basis of stock certificates
All negotiable receipts with registers filed for release date
Stock certificates and Treasurer's copy of register received from transfer office
Stubs of counter receipts detached from stock certificates and held for release date
Stubs of counter receipts detached to form basis of stock certificates
Negotiable receipts with stubs of counter receipts detached and compared with checklist sent to 71 Broadway
Counter and mail schedules and warrants filed
AFTER RELEASE DATE
Envelopes for stock certificates addressed from list of stockholders received from 71 Broadway checked and sent to post office as registered mail together with registered mail form and letter in duplicate
Stock certificates with stubs of counter receipts detached checked and compared with checklist sent to 71 Broadway
Negotiable receipts with stubs of counter receipts detached checked and sent to 71 Broadway
Negotiable receipts put into envelopes, checked and mailed
Counter receipts received from 71 Broadway filed
Copy of first installment register sent to Treasurer and Comptroller

Fig. 107: Concluded

Showing All Adjustments in One Account

When companies are acquired it is most natural to try and procure the properties at any reasonable price. Consequently prices may be paid in excess of the value of the assets. The object of a merger is naturally to effect economies, and what is of more importance, to curtail competition. The values, therefore, that are placed on the assets acquired, for which the stock of the new corporation was given, may be appreciably higher than the actual worth of certain assets. Conservative management, however, requires immediate adjustment of these values and as a result such assets of doubtful worth are written down or removed from the books entirely.

In some instances where there are a larger number of assets to be adjusted it is desirable to open an account in which will appear all the amounts of assets either written down or closed out entirely. Frequently there are certain assets that will be increased in value. All of these adjustments would, therefore, be shown in one account, and the net balance transferred to Surplus. The entry to be made in this case would be:

Capital Adjustment (for reduction of all assets) $750,000
  Assets (reduction of each amount to be shown) $750,000
    To transfer to Capital Adjustment account, reductions of assets on books, etc.

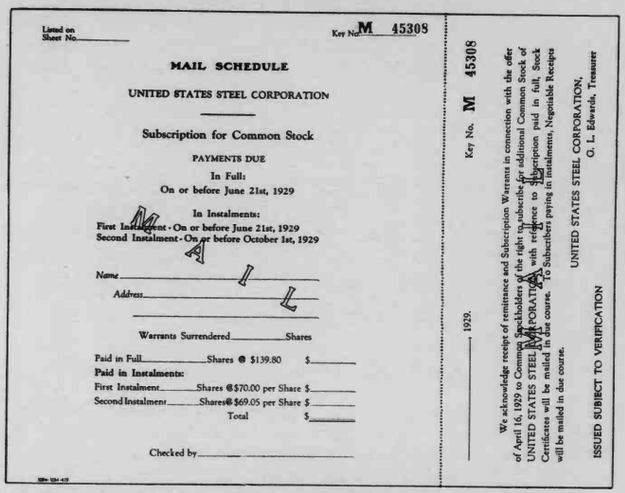
Assets (Increase of each account to be shown) $200,000
  Capital Adjustment (for increasing all assets) $200,000
    To transfer to Capital Adjustment account increases of assets on books, etc.

Surplus $550,000
  Capital Adjustment $550,000
    To transfer net debit balance in Capital Adjustment account to Surplus.

Procedure in Privileged Issues

The procedure for handling rights is practically the same in respect to essentials for the large as for the small corporation. In the case of the larger corporation, in view of the volume of transactions, it becomes necessary to provide a greater number of forms and controls in order to guard against error and to promote rapid progress of the work. In either case, however, systems should be provided so that the practice of the corporation will be standardized

and the work proceed automatically. In the case of the large corporation, the addressograph list of stockholders, if kept up to date by prompt changes as transfers occur, will be used in mailing warrants. If the names are not maintained on stencils, it is customary to prepare a list of stockholders who will be entitled to receive warrants and in some instances, provision is made for entering in spaces provided under appropriate captions information as to the



Listed on Sheet No._____ Key No. M 45308

MAIL SCHEDULE

UNITED STATES STEEL CORPORATION

Subscription for Common Stock

PAYMENTS DUE

In Full:
On or before June 21st, 1929

In Instalments:
First Instalment - On or before June 21st, 1929
Second Instalment - On or before October 1st, 1929

Name_____
Address_____

Warrants Surrendered_____ Shares

Paid in Full_____ Shares @ $139.80 $_____
Paid in Instalments:
First Instalment_____ Shares @ $70.00 per Share $_____
Second Instalment_____ Shares @ $69.05 per Share $_____
Total $_____

Checked by_____

Key No. M 45308

_____, 1929.

We acknowledge receipt of remittance and Subscription Warrants in connection with the offer of April 16, 1929 to Common Stockholders of the right to subscribe for additional Common Stock of UNITED STATES STEEL CORPORATION, with reference to subscription paid in full. Stock Certificates will be mailed in due course. To Subscribers paying in instalments, Negotiable Receipts will be mailed in due course.

UNITED STATES STEEL CORPORATION,
G. L. Edwards, Treasurer

ISSUED SUBJECT TO VERIFICATION

Fig. 108: Record of Mail Subscription and Acknowledgment

number of shares or fraction of shares the stockholder will be entitled to receive; also space is provided for the entry of the warrant number which identifies the warrant issued to that particular stockholder.

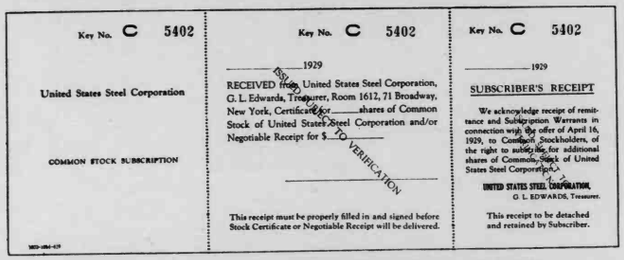
System Used by Corporation With Many Stockholders

A chart is presented in Fig. 107 prepared by U. S. Steel Corporation showing each step in the process of handling privileged stock subscriptions. The chart is self-explanatory and a careful examination will show exactly the functions and the order in which they are performed and their interrelation.

Although it will be impossible to show in the limited space available for the purpose the complete system estab-

lished by the United States Steel Corporation, a brief description of the principal forms and an exemplification of certain forms of particular interest and importance will be attempted.

A general control is established by assigning a number to the warrant which is used throughout all transactions relating to the warrant. Warrants are received at the offices of the corporation, either through the mail or by personal deliveries at the counter. If received by mail, a form shown in Fig. 108 is used, the name and address of the stockholder is inserted; also the amount of the remittance, and designation whether in full or partial payment. At-


Key No. C 5402

United States Steel Corporation

COMMON STOCK SUBSCRIPTION

Key No. C 5402

_____ 1929

RECEIVED from United States Steel Corporation, G. L. Edwards, Treasurer, Room 1612, 71 Broadway, New York, Certificate for _____ shares of Common Stock of United States Steel Corporation and/or Negotiable Receipt for $_____

ISSUED SUBJECT TO VERIFICATION

This receipt must be properly filled in and signed before Stock Certificate or Negotiable Receipt will be delivered.

Key No. C 5402

_____ 1929

SUBSCRIBER'S RECEIPT

We acknowledge receipt of remittance and Subscription Warrants in connection with the offer of April 16, 1929, to Common Stockholders, of the right to subscribe for additional shares of Common Stock of United States Steel Corporation.

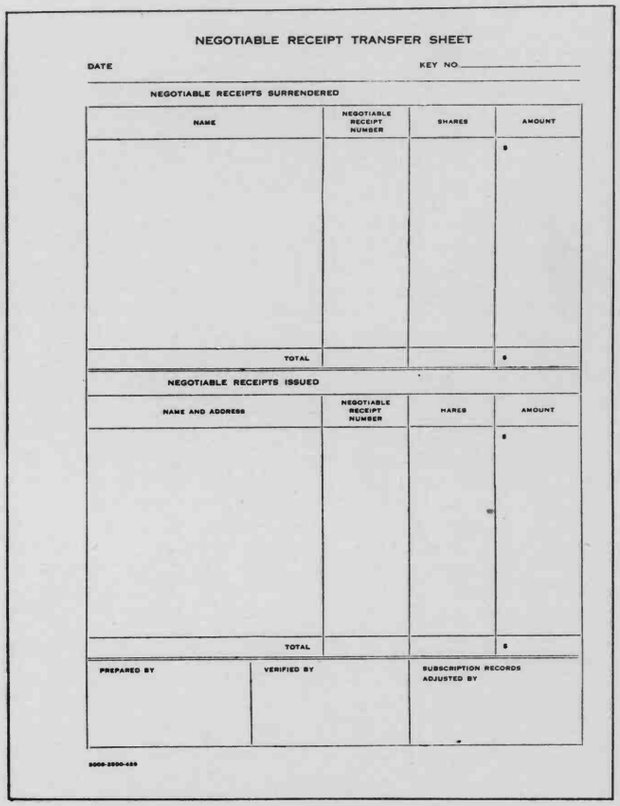
UNITED STATES STEEL CORPORATION,
G. L. EDWARDS, Treasurer.

This receipt to be detached and retained by Subscriber.

Fig. 109: Counter Receipts for Warrants Presented in Person

tached to the form shown in Fig. 108 is a perforated slip bearing the same key number and constituting the receipt of the acknowledgment of the remittance and subscription warrant and advising the stockholder that stock certificates or negotiable receipts as the case may be will be mailed in due course.

If warrants are presented in person, the form shown in Fig. 109 is used consisting of three perforated slips bearing the same key number, one slip constituting the subscriber's receipt acknowledging the remittance and subscription warrant, another constituting receipt by the subscriber from the corporation of certificates of stock or negotiable receipts as the case may be. This receipt must be properly filled in and signed by the subscriber before stock certificates or negotiable receipts will be delivered. When payment is made on the first installment, a negotiable receipt is prepared and if not delivered personally at the counter, is sent by registered mail, the only additional enclosure being a printed slip stating that the negotiable receipt evidencing payment of the first installment due on subscription for common stock of the corporation in accordance with terms


NEGOTIABLE RECEIPT TRANSFER SHEET

DATE _____ KEY NO. _____

NEGOTIABLE RECEIPTS SURRENDERED

NAME	NEGOTIABLE RECEIPT NUMBER	SHARES	AMOUNT
			$
TOTAL			$

NEGOTIABLE RECEIPTS ISSUED

NAME AND ADDRESS	NEGOTIABLE RECEIPT NUMBER	SHARES	AMOUNT
			$
TOTAL			$

PREPARED BY	VERIFIED BY	SUBSCRIPTION RECORDS ADJUSTED BY

Fig. 110: Negotiable Receipt Transfer Sheet

of a circular letter previously mailed to the stockholder is being enclosed. The attention of the stockholder is directed to the fact that the negotiable receipt must be surrendered when the final installment is paid on or before the date fixed for such payment. The key numbers supply an additional control in that they are issued in sequence, a group of these key numbers constituting a unit, so that any inac-

DAILY REPORT OF SUBSCRIPTIONS

FOR UNITED STATES STEEL CORPORATION COMMON STOCK
UNDER TERMS OF CIRCULAR LETTER DATED APRIL 16, 1929

DATE_____

	SUBSCRIPTIONS	SHARES	AMOUNT
FULL PAID			
ENTERED TODAY			$
PREVIOUSLY ENTERED			
TOTALS			$
INSTALMENT			
ENTERED TODAY			$
PREVIOUSLY ENTERED			
TOTALS			$
ALL SUBSCRIPTIONS			
ENTERED TODAY			$
PREVIOUSLY ENTERED			
TOTALS			$
SUSPENSE ACCOUNT			
PREVIOUS BALANCE			$
DEPOSITED TODAY			
BALANCE			$
WITHDRAWN TODAY			
BALANCE TODAY			$
TOTAL SUBSCRIPTION PAYMENTS TO DATE			$

DATE ISSUED_____

_____
TREASURER

Fig. 111: Daily Report of Subscriptions

curacy or mistakes can be quickly run down and traced to the member of the staff responsible.

If the negotiable receipts are assigned, the same care must be given in respect to formality of execution, etc., as in the case of transfers of stock certificates. A report of such transfers is made on the form shown in Fig. 110 which is arranged to show information as to name, receipt number, shares and amount of negotiable receipts surrendered

and the name and address, receipt number, shares and amount of negotiable receipts issued. At the bottom of the form are spaces for the name of the person preparing the report and for the person verifying the report and also for that of the person who has adjusted the subscription record.

In Fig. 111 is shown a form designed for the daily report of the subscriptions. This form is self-explanatory. By its means, complete information as to the day's activities in subscriptions, as to expense account and as to total subscription payments to date can be obtained at a glance.

Printed slips are provided for use instead of letter form to be mailed to the stockholder with enclosures or to notify subscribers that their rights will expire or that installment payments have become due. Such a form, for example, is used for acknowledgment for receipt of negotiable part paid subscription receipt and remittance of payment in final installment on account of the subscription for additional common stock and to advise the subscriber that stock certificates will be mailed in due course. Such a form accompanies checks of the corporation for refunds.

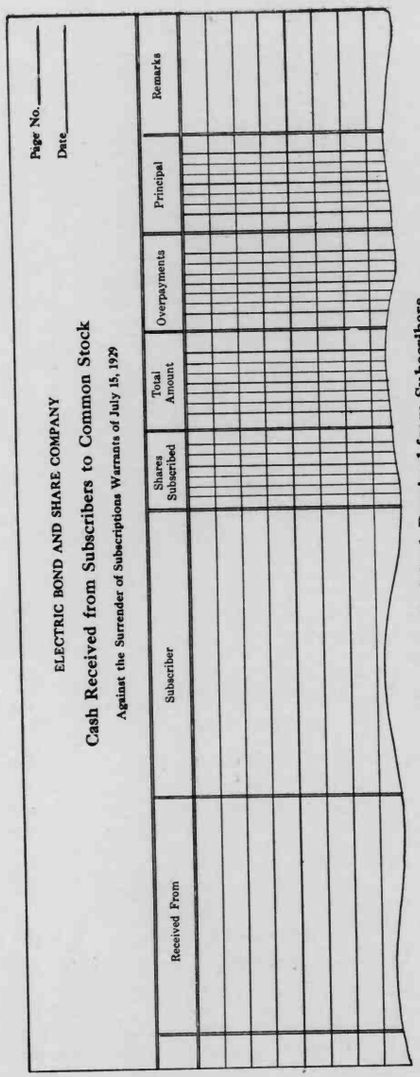
In recording the surrender of warrants and the issuance of stock certificates in instances where subscription payments are made in full and in recording the surrender of warrants and issuance of negotiable receipts in instances where payments are made by installments, the system is similar to that described (see Fig. 24) in respect to transfers of stock in Chapter IX. Multiple impression carbons are made and duplicates of the record are sent to the controller and secretary.

System Used by Corporation With Moderate Number of Stockholders

In the case of a corporation having a moderate number of stockholders the principal record used is a loose leaf record for recording transfers of subscription warrants, provision being made for multiple impressions, one of the carbon copies being perforated in order that distributions can be made of debits and credits, as in the form shown in Fig. 25. In addition a record is kept of cash received from subscribers to the common stock against the surrender of subscription warrants, a form being used similar to that shown in Fig. 112.

Securities With Warrants Attached

In view of the similarity between warrants issued in connection with privileged subscriptions and stock purchase and stock allotment warrants attached to securities, it



Page No._____
Date_____

ELECTRIC BOND AND SHARE COMPANY

Cash Received from Subscribers to Common Stock

Against the Surrender of Subscriptions Warrants of July 15, 1929

Received From	Subscriber	Shares Subscribed	Total Amount	Overpayments	Principal	Remarks

Fig. 112: Record of Cash Received from Subscribers

would seem advisable to discuss warrants with securities attached in this chapter.

The practice of issuing securities with warrants attached has attained a substantial and growing following among large corporations.

Warrants are usually attached to bonds or debentures, but recently many preferred stocks have been offered, with warrants attached.

The warrants attached to bonds sometimes entitle the holder to acquire preferred stock on the terms specified, but usually the privilege applies to common stock. The chief appeal to the purchaser of bonds with warrants is the speculative element afforded by the possible appreciation in value of the shares.

The warrant may be either detachable or non-detachable, but if detachable, there is usually a date specified prior to which it may not be detached. If not detachable except at the time of exercise the effect is to limit the privilege of using the warrant to the holder of the security of which it is an adjunct.

There are two common types of warrants, one type termed allotment warrants entitling the holder of the security to receive a certain number of shares without cost, and stock purchase warrants entitling the holder to purchase certain shares at a specified price or sliding scale of prices based on a series of dates over a considerable period of time.

When pursuant to the governing provisions the detachable warrant is separated from the security and becomes an independent unit, it may be sold and pass from one purchaser to another in the same manner as a certificate of stock.

Nature of Warrants

Since the comparatively recent date when the warrant was first employed in corporate financing the method of its use has been extended to embrace a wide and diversified range. Owing to its novelty, the legal determination of the character of the warrants in some of its more complicated applications has not been adjudicated by the courts.

The legal nature of the privilege conferred through the warrant, as ordinarily used will probably be conceded to constitute merely an option. This option it is true is ordinarily protected by covenants in the mortgage indenture and by provisions in the certificate of incorporation.

The indenture usually contains provisions protecting the conversion privilege against dilution by issuance to

stockholders of stock dividends, stock subscription rights or securities convertible into stock, and permits consolidation or reorganization of the company or sale of its assets only upon such terms as will preserve and not impair the rights of note holders.

In many instances an amount of stock sufficient to cover requirements of all outstanding warrants is deposited, pursuant to the terms of the indenture, with the mortgage trustee.

If a specific block of stock is not so delivered to the trustee the corporation is nevertheless obliged to take care that the stock is available for delivery to warrant holders if the latter exercise their privileges. Many corporations have taken the position that the stock need not be earmarked prior to the call for it by the warrant holder. Some corporations, however, actually make a record of the amount of stock to be used for conversion at the time of the issuance of the original securities and hold this amount of stock subject to the exercise of the stock purchase options.

A well-known corporation issuing bonds with two types of options attached, one calling for delivery of gratis shares and the other calling for delivery of common stock at a fixed scale of prices has taken the position that the stock given as a bonus (and held for future delivery) should be issued at the time of issuance of the bonds, as the consideration is regarded as passing to the corporation in the purchase price of the bonds. Nothing is done, however, in respect to the stock required for conversion of stock purchase warrants, because it is believed that the obligation of the corporation is merely to be in a position to deliver the stock if called for by the warrant holders on payment of the specified consideration at the specified future times.

Accounting Procedure for Bonds With Warrants

The accounting procedures of prominent corporations issuing bonds with warrants varies greatly. Some of these corporations which have outstanding debentures with non-detachable warrants show on the books, first, the amount of issued bonds, then the amount of authorized stock less the unissued, the balance representing the amount issued and outstanding. No accounting treatment is given any part of the unissued stock to provide for the conversion privilege.

One large corporation follows an entirely different procedure which accords with particular provisions in the trust agreement. It shows on its balance sheet the authorized common stock less the unissued stock, less the amount

of stock which pursuant to the indenture is held by the trustee for the holders of stock purchase warrants. This gives notice that a portion of the authorized stock has been reserved for the conversion of the warrants.

In another case where no provision was made in the indenture for delivering any stock to the trustee, the corporation considers it good practice to give a reminder to its stockholders on its balance sheet of the possible exercise of outstanding warrants and the potential effects thereof. This corporation shows the various classes of stock, authorized, unissued and issued and outstanding, in the usual manner on the balance sheet. A footnote is appended, however, which indicates that a certain number of shares is reserved for conversion of the warrants. At the top of the ledger sheets for the various classes of unissued stock are carried notations of the number of shares reserved for exercise of debenture warrants.

Similarly across the top of the Debenture Bonds Issued ledger sheet a note is made of the number of warrants outstanding. This is kept up to date to show how many warrants have been converted and the balance of warrants still outstanding.

Exemplification of Accounting Procedure

The following problem illustrates the different methods of recording on the books transactions relative to bonds which have been issued with warrants attached.

Under Method No 1 it is assumed that the holder of the warrant has merely a contract arrangement with the company for the issuance of the stock as set forth in the terms of the warrant, and no entries are made on the company's books until the warrants are actually converted.

Under Method No. 2 it is assumed that the holder of the warrant is the beneficiary of a provision of the trust agreement, under which the company is to deposit a specified amount of the authorized stock with the trustee for the bondholders.

Bonds to the extent of $500,000 (500 at 1 M each) were issued on February 1, 1929 by the Reliance Manufacturing Company, Inc.

Each bond carries an allotment warrant (non-detachable prior to February 1, 1930, or such earlier date as may be fixed by the corporation) which entitles the holder to receive on or before February 1, 1930 without cost four shares of common stock (the par value of which is $25 a share). In addition each bond is accompanied by a Common Stock Purchase Warrant (with the same provi-

sions as to detachability as the allotment warrant) which entitles the holder to purchase six shares of common stock at any time up to and including February 1, 1931 at $30 a share; thereafter up to and including February 1, 1932 at $40 a share.

Method No. 1.

Under this method as has been pointed out in the problem no part of the authorized stock is set aside with the trustee to take care of the warrants covering the stock given as a bonus and the purchase of the additional stock. Therefore no entries are made on the books to set up any portion of the authorized stock in a special account to indicate that it has been set aside to take care of warrant conversion privileges.

The capital stock accounts on the general ledger of the Reliance Manufacturing Company, Inc. as at Feb. 1, 1929 at the time of issuance of the bonds (with warrant attached) are as follows:

Capital Stock Unissued		Capital Stock Authorized	
$1,000,000	*$600,000		$1,000,000

The entries that follow (after the bonds have been issued and set up on the books) should be made to record the transactions covered by the bond conversion privileges as called for by the warrants:

February 1, 1930

Stock Allotment Bonus	$50,000	
Capital Stock Unissued		$50,000
For issuance of 2000 shares of Capital Stock given as bonus on 500 bonds.		

February 1, 1931

Cash	**$90,000	
Capital Stock Unissued		$75,000
Capital Surplus		15,000
To record issuance of 3000 shares of capital stock sold on this date at price of $30 a share pursuant to bond conversion privilege of warrants.		

In some instances the bondholders may exercise their option to purchase the stock at a later date than February 1, 1931 at which time the price of the stock would be at $40

*Previously issued.

**It is assumed that all options are exercised at this date at price of $30 a share.

a share and the entries of course would be made on the basis of the higher price of the stock.

After the credits have been entered in the Capital Stock Unissued account, the amount of capital stock issued and outstanding at this date will be $725,000.

Method No. 2.

Under this method it is assumed that in accordance with the specific terms of the indenture agreement with the bondholders, a definite allotment of a portion of the authorized capital stock to take care of the conversion privileges (totaling $125,000) is actually set up on the books and turned over to the trustee.

At the beginning the ledger accounts would appear as presented under Method Number 1 before the allotted amount of the stock is set up on the books.

Capital Stock Unissued		Capital Stock Authorized	
$1,000,000	*$600,000		$1,000,000

The first entry to be made is to record the specific allotment of a portion of the remaining authorized capital stock which is set aside for the conversion of the warrants.

February 1, 1929

Capital Stock Unissued for Conversion of Warrants	$125,000	
Capital Stock Unissued		$125,000
To transfer this portion of the Unissued Stock account which has been set aside pursuant to the terms of the bond indenture.		

Where a provision is contained in the indenture to the effect that a block of stock is to be transferred immediately to the trustee proper record of this should be made on the books. Thus an entry would be made as follows:

Trustee of Stock for Bondholders	$125,000	
Capital Stock Unissued		$125,000
To record issuance of stock certificate No. 22 for 5000 shares of the capital stock in accordance with trust agreement; 2000 shares to be given as bonus, 3000 shares to be purchased.		

If so provided in the trust agreement, as the Stock Warrants are turned in for conversion the trustee would arrange to issue the stock, and on the books of the company

*Previously issued.

the proper account would be charged and the account "Trustee of Stock for Bondholders" would be correspondingly credited.

On the assumption, however, that the stock is not actually issued to the trustee the following entries are made and credited to the account "Capital Stock Unissued for Conversion of Warrants."

February 1, 1929

Stock Allotment Bonus	$50,000	
Capital Stock Unissued for Conversion of Warrants		$50,000

For issuance of 2000 shares of Capital Stock given as bonus on 500 bonds.

February 1, 1931

Cash	$90,000	
Capital Stock Unissued for Conversion of Warrants		$75,000
Capital Surplus		15,000

To record issuance of 3000 shares of capital stock sold on this date at price of $30 a share in pursuant to bond conversion privilege of warrants.

If all the warrants were not redeemed this would be reflected by the balance remaining in the account "Capital Stock Unissued for Conversion of Warrants."

The important thing for the accountant to keep in mind in this type of accounting problem is to study carefully and follow the provisions of the indenture.

CHAPTER XXX

RECEIVERSHIP AND BANKRUPTCY

Receivers

A receiver may be appointed for a corporation for various reasons. Sometimes a receiver is appointed on dissolution of a corporation, or appointed to take charge of property which is the subject of litigation, or to run the business for a time. Receivers may also be appointed by the bankruptcy court, in which case they are temporary officers who are empowered to act until the appointment of a trustee in bankruptcy, in which case the receiver has no powers other than those delegated to him by the court. As a general rule, receivers are appointed by courts having equitable jurisdiction. Receiverships are usually entered into under amicable circumstances (except in bankruptcy proceedings), and the circumstances which lead to such an appointment most frequently are those existing when a corporation is in difficulty, but not actually insolvent, and the officers and creditors wish to achieve a fair and equitable adjustment of debts which will place all the creditors on a common footing. In such a case, a receiver is appointed (often in a Federal court) who runs the business and pays the creditors *pro rata* according to their several claims. In this connection, it is important to observe that if the corporation is actually insolvent, the application for appointment of a receiver is an act of bankruptcy, and in such case the corporation may immediately be thrown into bankruptcy.

Bankruptcy

The state statutes governing insolvency, discharge of insolvent debtors and such matters were in such confusion that many years ago Federal statutes were enacted, superseding all state laws covering the subject. The law now in force is incorporated in the Federal Bankruptcy Act.

The Bankruptcy Act (Sec. 1, Subdivision 15) defines insolvency as follows: "A person shall be deemed insolvent within the provisions of this act whenever the aggregate of his property, exclusive of any property which he may have conveyed, transferred, concealed, or removed, or permitted to be concealed or removed, with intent to

defraud, hinder or delay his creditors, shall not, at a fair valuation, be sufficient in amount to pay his debts."

By this Act, the district courts of the United States and their appellate courts are given sole jurisdiction of bankruptcy matters. In these courts all bankruptcy proceedings are carried on, and the courts appoint subordinate officials such as referees, marshals and receivers to aid in the expedition of bankruptcy proceedings.

Bankruptcy may be (1) voluntary, or (2) involuntary. If the former, the debtor starts the proceeding of his own volition when he files his petition to be adjudicated a bankrupt. In the latter case, the creditor or creditors bring the proceeding against the debtor, and to do so it is necessary that the debtor owe at least $1000.

Who May Become a Bankrupt

Any corporation except a municipal, insurance, railroad or banking corporation may become a voluntary bankrupt, and any moneyed, business or commercial corporation, except a municipal, railroad, insurance or banking corporation, which owes debts to the amount of $1000 or over, may be adjudged an involuntary bankrupt.

Who May File a Petition

"Any qualified person may file a petition to be adjudged a voluntary bankrupt. Three or more creditors who have provable claims against any person which amount in the aggregate, in excess of the value of securities held by them, if any, to five hundred dollars or over; or if all of the creditors of such person are less than twelve in number, then any one of such creditors whose claim equals such amount may file a petition to have him adjudged a bankrupt."

The provisions regulating who may become bankrupts, referred to above, must of course always be borne in mind in considering who may file a petition.

Acts of Bankruptcy

The Act enumerates certain acts which, if done or performed by the debtor, shall be cause for his creditors to have him adjudicated an involuntary bankrupt. Briefly, these are: (1) Conveying, transferring, concealing or removing any part of his property with intent to hinder, delay or defraud his creditors; (2) transferring any part of his property, while insolvent, to one or more creditors with intent to prefer him or them to other creditors; (3)

permitting, while insolvent, any creditor to obtain a preference through legal proceedings (such as a judgment) and not having at least five days before a sale or final disposition of any property so affected, vacated or discharged such preference; (4) permitting, while insolvent a person to obtain a judgment, attachment or other lien through legal proceedings and failing to discharge it within thirty days; (5) making a general assignment for the benefit of creditors (referred to above) or, being insolvent, applying for the appointment of a receiver or trustee; (6) admitting in writing his inability to pay his debts and his willingness to be adjudged a bankrupt.

When a debtor has committed an act of bankruptcy, creditors may file a petition against him within four months from the commission of the act.

Bankruptcy Procedure

After a petition in involuntary bankruptcy has been filed, service by subpoena is made upon the debtor, who may appear and plead to the petition within five days after the return day, or within such further time as the court may allow. The judge, at the hearing, determines the issues, usually without a jury, and makes the adjudication or dismisses the petition. If the petition is a voluntary one, the procedure is even simpler, the judge making his adjudication or dismissal at the hearing. The bankrupt is here voluntarily submitting himself to the jurisdiction, so that no subpoena is necessary.

When the adjudication is made, the debtor is then officially a bankrupt and title to all his property vests in the trustee in bankruptcy.

Creditors

The first meeting of creditors of a bankrupt is held not less than ten nor more than thirty days after the adjudication, usually at the county seat of the county where the bankrupt has had his principal place of business, resided, or had his domicile. The judge or referee in bankruptcy presides at the first meeting of creditors and may allow or disallow any claims presented by them, and may examine the bankrupt; subsequent creditors' meetings may be held when all of the creditors who have secured the allowance of their claims sign a written consent to hold a meeting at a given time and place, and the court must call a creditors' meeting at the written request of one-fourth or more of those who have proven their claims. Furthermore, if a majority of the creditors sign such re-

quest and the majority of the claims are represented by those making it, and the request calls for a designated place of meeting, the court must call such meeting within thirty days. A final meeting of creditors is held when the affairs of the bankrupt are ready to be closed.

Notice to Creditors

Creditors are given by the Act the right to have at least ten days' notice by mail given them of the following, unless they waive such notice in writing: (1) all examinations of the bankrupt, (2) all hearings upon applications for the confirmation of compositions, (3) all creditors' meetings, (4) all proposed sales of property, (5) the declaration and time of payment of dividends, (6) filing of the final accounts of the trustee, (7) the proposed compromise of any controversy, (8) the proposed dismissal of the proceedings. There must be thirty days' notice of all applications for discharge of bankrupts.

Trustee in Bankruptcy

The trustee is appointed by the creditors at their first meeting or in case of a vacancy. If they do not appoint a trustee, the court must do so. Trustees may be (1) individuals who are competent to act as such, and reside or have an office in the judicial district where they are appointed, or (2) corporations authorized by their charters or by law to act in such capacity and having an office in the district where they are appointed.

The title to the bankrupt's estate vests in the trustee on the adjudication; at once, if the trustee has already been appointed, or as of the adjudication, if the trustee is subsequently appointed as is usually the case.

Duties of Trustee

Certain statutory duties which must be performed by the trustee are laid down by the Act. Briefly, these are as follows: (1) account for and pay over to the estate under his control all interest received on property, (2) collect and reduce to money the property of the estate and close up the estate as soon as possible, (3) deposit all money in designated banks, (4) disburse money only by check or draft, (5) furnish information to parties interested, (6) keep regular accounts, (7) lay before final creditors' meeting detailed statements of administration of the estate, (8) make final reports and file accounts with the court fifteen days before final creditors' meeting, (9) pay dividends within ten days after they are declared by the referee, (10) present written reports to the court showing condition of estate within first month after his appointment and every two months thereafter, and (11) set apart the bankrupt's exemptions and report items and estimated value thereof to the court as soon as practicable after appointment.

Duties of Bankrupt

Certain duties of the bankrupt are set out in the Act. The duties in regard to filing a schedule of his property are the most important. He must, within 10 days after having been adjudged a bankrupt (and with the petition, if voluntary), file a schedule of his property showing (1) amount and kind, (2) its location, (3) its money value in detail, (4) a list of his creditors with known addresses (if unknown the fact to be stated), (5) the amounts due to each, (6) the consideration thereof, (7) the security held by them, and (8) a claim for such exemptions as he may be entitled to. The bankrupt is obliged to submit to an examination at the first meeting of his creditors, concerning the conduct of his business, the cause of bankruptcy, his dealings with creditors and other persons, the amount of his property, and so on.

Preferences

One of the principal objects of the Bankruptcy Act is to guard against preferences, or the preferring of one creditor to others. A person is deemed to have given a preference if he has, being insolvent, within four months of the filing of the petition and before adjudication, allowed a judgment to be entered against him, or made a transfer of any property the result of which will be that one of his creditors shall obtain a greater percentage of his debt than any other creditors of the same class. Preferences are voidable by the trustee, who may recover the property for the estate. The same principles which apply to the avoidability of preferences apply to liens which are based on suits begun within four months after the filing of the petition.

Discharge

The bankrupt may apply for discharge after one month and within twelve months subsequent to being adjudged such. His application is filed in the bankruptcy court and heard by the judge who discharges him unless he has com-

mitted an offense in violation of the Act, or has been guilty of fraud.

Arrangement to Forestall Receivership

There are instances where the stockholders of a corporation come to the support of the company in order to avoid the appointment of a court receiver.

Suppose for example that as the result of mismanagement the corporation has been operating at a loss.

The minority interests apply to the court for the appointment of a receiver maintaining that due to gross negligence of the officers and directors the company's capital has suffered considerable impairment.

Let us assume that the company, at the request of the court, submits the following balance sheet:

BEECH MANUFACTURING CORPORATION

GENERAL BALANCE SHEET, JULY 1, 1929

Assets			*Liabilities and Capital*	
Current Assets			*Current Liabilities*	
Cash in Bank		$ 2,500.00	Notes Payable-Bank	$25,500.00
Accounts Receivable (Good)		27,250.00	Notes Payable-Creditors	30,000.00
Notes Receivable		7,500.00	Accounts Payable	45,500.00
Raw Materials		15,500.00		
Work in Process		15,250,00		
Finished Product		35,500.00		
Total Current Assets		$103,500.00	Total Current Liabilities	$101,000.00
Capital Assets			*Capital Liabilities*	
Land		20,000.00		
Buildings	115,000		Mortgage Payable	$70,000.00
Less Reserve for Depreciation	20,000	95,000.00		
Plant Equipment	55,500			
Less Reserve for Depreciation	10,000	45,500.00	Capital Stock Issued (2000 shares at par value of $50 each)	$100,000.00
Total Capital Assets		$160,500.00		
Patents		5,000.00		
Deficit		2,000.00		
Total Assets & Deficit		$271,000.00	*Total Liabilities & Capital*	$271,000.00

Agreement to Reorganize Adopted

The directors are opposed to the receivership and submit to the court a plan of reorganization, whereby an agreement is entered into between the minority stockholders and the larger holders who are responsible for the policies of the company.

The matter of voting rights and adjustment of officers' salaries has been rearranged and settled to the satisfaction of the minority stockholders.

In order to obtain immediately requisite funds necessary to prevent the conducting of the business by a receiver, with possibilities of final liquidation of the business, the stockholders further agree to an assessment of 40 per cent on their holdings. The amount paid in will be exchanged for certificates of indebtedness, without interest, payable in six months.

These transactions are to be recorded:

1. Certificates of indebtedness are issued in amount of $40,000.
2. A parcel of undeveloped land is sold for $12,000 producing a profit of $6,000.
3. Notes Receivable of $5,000 are collected.
4. Accounts Receivable of $12,000 are collected.
5. Part of the amount of Notes Payable due Bank, $10,000 of which are overdue are now paid.
6. Notes Payable of Trade Creditors of $15,000 are paid.
7. Accounts Payable are paid in amount of $20,500.
8. Negotiations which were started for sale of finished product for cash were completed and cash in amount of $18,000 was received; the cost of this merchandise was $10,500.
9. The profits realized in the sale of the parcel of land and the finished product represent a total profit of $13,500. This amount is transferred to Surplus.

Accounting Procedure Pursuant to Reorganization Agreement

The accounting procedure necessary to record the transactions brought about as a result of the plan of reorganization is illustrated by the following entries:

Entry No. 1.

Cash	$40,000.00	
Certificates of Indebtedness		$40,000.00

For assessment of 40% on outstanding stock, paid by stockholders, and to record issuance of certificates of indebtedness payable December 31, 1929, without interest. This is in accordance with agreement entered into, etc.

Entry No. 2.

Cash	$12,000.00	
Land		$6,000.00
Profit and Loss		6,000.00

For sale of land at price of $12,000, cost of which parcel is $6000.

Note: It is always desirable to set up proper nominal accounts to record the "Sale of Land" and "Cost of Land," etc., which will better express the accounting facts on books. In the problem herewith this is dispensed with so as to reduce number of journal entries to minimum.

Entry No. 3.

Cash	$5,000.00	
Notes Receivable		$5,000.00

To record collection of Notes Receivable.

Entry No. 4.

Cash	$12,000.00	
Accounts Receivable		$12,000.00

To record collection of Accounts Receivable.

Entry No. 5.

Notes Payable—Bank	$10,000.00	
Cash		$10,000.00

For amount of Notes Payable paid to bank.

Entry No. 6.

Notes Payable—Trade Creditors	$15,000.00	
Cash		$15,000.00

To record payment of Notes Payable due Trade Creditors.

Entry No. 7.

Accounts Payable	$20,500.00	
Cash		$20,500.00

For payment made this day of accounts payable.

Entry No. 8.

Cash	$18,000.00	
Finished Product		$10,500.00
Profit and Loss		7,500.00

For sale of finished product for $18,000, cost of which is $10,500.

Entry No. 9.

Profit and Loss	$13,500.00	
Surplus		$13,500.00

To transfer profit of $6,000 on sale of land and profit of $7,500 on sale of finished product.

It will be seen from the working sheet shown in Fig. 113 that the company has not only avoided the appointment of a receiver, but has strengthened its financial condition materially. The total current assets amount to $117,500 as against the current liabilities of $95,500. As the certificates of indebtedness of $40,000 are not due and payable until December 31, 1929, the cash on hand of $44,000 will be undoubtedly sufficient to meet current payroll and other needs, and pay off at due dates the notes and accounts payable which in the aggregate, represent at the present time a total of $55,500.

Receivership Pending Reorganization

If a corporation finds itself in financial difficulties, it usually attempts some plan of reorganization. Pending the determination of such plan a receivership may be applied for on one of the statutory grounds to give time to the study of some reorganization plan without being pressed by creditors. During the period of receivership no attachments or executions can be levied on the property of the corporation, title to both real and personal property passing to the receiver under the laws of many states.

The receiver upon appointment takes charge of the Assets and Liabilities and subsequent transactions of the business until the reorganization plans are agreed upon, at which time he returns the property. In the intermediate period he is required to keep complete record of his activities and make whatever financial reports the court requires.

The purpose of this discussion is to show how the receiver's books are kept and how the corporate books reflect the same conditions during the receivership period.

BEECH MANUFACTURING COMPANY

WORKING SHEET - RE PLAN OF REORGANIZATION

ALL ENTRIES EFFECTED AS OF JULY 1, 1929

	Balance Sheet at Beginning of July 1, 1929	Adjustments			Profit and Loss		Balance Sheet *** at end July 1, 1929
Debits							
Cash in Bank	$ 2,500.00	1) $ 10,000.00	2) $ 10,000.00				$ 44,000.00
		2) 12,000.00	3) 15,000.00				
		3) 2,000.00	7) 20,500.00				
		8) 18,000.00	4) 12,000.00				15,250.00
Accounts Receivable	27,250.00		5) 5,000.00				2,500.00
Notes Receivable	7,500.00						15,250.00
Raw Materials	15,250.00						26,000.00
Work in Process	26,000.00		8) 10,500.00				14,000.00
Finished Product	14,000.00		2) 6,000.00				155,500.00
Land	115,000.00						5,000.00
Buildings	155,500.00						
Plant Equipment	5,000.00						$ 15,500.00
Patents							15,000.00
		$ 25,500.00	5) 10,000.00				25,000.00
Credits			6) 15,000.00				* 70,000.00
Notes Payable - Bank		50,000.00	7) 20,500.00				10,000.00
Notes Payable - Creditors		45,500.00		1) 40,000.00			20,000.00
Accounts Payable							109,000.00
Certificates of Indebtedness		70,000.00					
Mortgage Payable		10,000.00					
Reserve for Depreciation of Plant		20,000.00			$ 13,500.00	$6,000.00	
Reserve for Depreciation of Building		100,000.00				7,500.00	
Capital Stock Issued				2) 6,000.00			
Profit and Loss:				8) 7,500.00			
On Land							
On Finished Product	2,000.00						** 91 11,500.00
Surplus (& Deficit)	$301,000.00	$301,000.00		$132,500.00	$132,500.00	$13,500.00	$307,000.00 $307,000.00

* Would probably take priority over creditors' obligations based on agreement.
** Surplus at end Journal entries $ 13,500 less original deficit of $2,000,
equals surplus at end of $11,500.
*** This is balance sheet after adjustment.

Fig. 113: Working Sheet—Beech Manufacturing Corporation

Illustration of Receiver's Accounting

In order to illustrate such procedure the following problem is used:

The United Process Company, Inc. has been placed in the hands of a receiver on December 31, 1929. Its balance sheet as taken from its books of account is as follows:

UNITED PROCESS COMPANY, INC.
GENERAL BALANCE SHEET AS AT
December 31, 1929

ASSETS

Land		$ 75,000
Buildings		250,000
Machinery and Equipment		125,000
Furniture and Fixtures		50,000
Cash		55,000
Notes Receivable		25,000
Accounts Receivable		85,000
Inventories		175,000
Total Assets		$840,000

LIABILITIES AND CAPITAL

Notes Payable		$ 80,000
Accounts Payable		65,000
First Mortgage 5% Bonds		200,000
Reserve for Depreciation of Building and Equipment		20,000
Reserve for Bad Debts		8,000
Capital Stock	$500,000	
Less Deficit	33,000	467,000
Total Liabilities and Capital		$840,000

An appraisal of the property is ordered and the following changes are made in the asset valuations. (The liabilities are correct as stated on the books.)

	Book	Appraisal	Increase	Decrease
Land	$ 75,000	$100,000	25,000	$ ——
Buildings	250,000	225,000	——	25,000
Machinery & Equipment	125,000	120,000	——	5,000
Furniture & Fixtures	50,000	45,000	——	5,000
Cash	55,000	55,000	——	——
Notes Receivable	25,000	25,000	——	——
Accounts Receivable	85,000	82,000	——	3,000
Inventories	175,000	155,000	——	20,000
	$840,000	$807,000	$25,000	$58,000

The receiver upon taking charge at this date will open his books of account by making the following entry:

December 31, 1929

Land	$100,000	
Buildings	225,000	
Machinery and Equipment	120,000	
Furniture and Fixtures	45,000	
Cash	55,000	
Notes Receivable	25,000	
Accounts Receivable	82,000	
Inventories	155,000	
Notes Payable		$ 80,000
Accounts Payable		65,000
First Mortgage 5% Bonds		200,000
Reserve for Depreciation of Buildings and Equipment		20,000
Reserve for Bad Debts		8,000
Receiver's Equity		434,000

To record the assets and liabilities of the United Process Company, Inc. taken over by the Receiver as per Court order.

This inventory of the business "Net Assets" would be filed by the receiver with the court.

Transactions During Receivership

During the six months of receivership operations the following transactions took place:

1—Sales for cash, totaling $75,000 were made at a Gross Profit of $15,000.

2—Merchandise totaling $20,000 was purchased for cash.

3—$32,000 of the outstanding accounts were collected.

4—$15,000 of the notes receivable were collected.

5—$75,000 receiver's certificates bearing 6% interest were issued due in three months. They were dated February 1, 1930 and sold at 97.

6—Expenses were paid as follows:

Labor	$24,000
Taxes	5,000
Miscellaneous Expense	2,000
Total	$31,000

7—Expenses of receivership including receiver's compensation and legal fees were paid in cash totaling $25,000.

The following is a consolidated journal entry, instead of having individual entries which would be made in the receiver's Cash Book on the dates that the transactions were consummated:

Cash	$194,750	
Discount on Receiver's Certificates	2,250	
Merchandise		$75,000
Accounts Receivable		32,000
Notes Receivable		15,000
Receiver's Certificates		75,000

To record cash receipts during receivership period.

Merchandise	$20,000	
Labor	24,000	
Taxes	5,000	
Expenses—Miscellaneous	2,000	
Expenses of Receivership	25,000	
Receiver's Certificates	75,000	
Interest on Receiver's Certificates	1,125	
Cash		$152,125

To record cash payments during receivership period.

On the assumption that the receivership terminated on June 30, 1930 the following entries would be made by the receiver in order to close his books:

June 30, 1930

Merchandise	$15,000	
Profit and Loss		$15,000

To record profit on sale of merchandise.

June 30, 1930

Profit and Loss	$59,375	
Discount on Receiver's Certificates		$ 2,250
Labor		24,000
Taxes		5,000
Expenses—Miscellaneous		2,000
Expenses of Receivership		25,000
Interest on Receiver's Certificates		1,125

To close all accounts showing losses to Profit and Loss.

June 30, 1930

Receiver's Equity	$44,375	
Profit and Loss		$44,375

To close the Profit and Loss account.

Receiver's Equity	$389,625	
Notes Payable	80,000	
Accounts Payable	65,000	
First Mortgage 5% Bonds	200,000	
Reserve for Depreciation of Building and Equipment	20,000	
Reserve for Bad Debts	8,000	
Land		$100,000
Buildings		225,000
Machinery and Equipment		120,000
Furniture and Fixtures		45,000
Cash		97,625
Notes Receivable		10,000
Accounts Receivable		50,000
Merchandise Inventories		115,000

To close the accounts of the receivership, the receivership being terminated on this date.

Filing of "First and Final Account"

The receiver would now file his "First and Final Account" with the court. This would appear in form somewhat similar to the following:

SUPREME COURT, NEW YORK COUNTY.

John Jones, suing on his own behalf and on behalf of any and all other creditors of The United Process Company, Incorporated, who may elect to become parties to this action.

Plaintiff

against

The United Process Company, Incorporated

Defendant

FIRST AND FINAL ACCOUNT OF HENRY WILLETTS
RECEIVER FOR THE UNITED PROCESS COMPANY, INCORPORATED
June 30, 1930

I charge myself as follows:

Inventory of Appraised Assets taken over December 31, 1929.

Land	$100,000	
Buildings	225,000	
Machinery & Equipment	120,000	
Furniture & Fixtures	45,000	
Cash	55,000	
Notes Receivable	25,000	
Accounts Receivable	82,000	
Inventories of Merchandise	155,000	
Total Assets taken over		$807,000

Additions to Capital		
Cash Increase, as per Cash Account		42,625
Total Value of Assets as taken over and Acquired		$849,625
Deductions from Capital		
Collections of Notes Receivable	$15,000	
Collections of Accounts Receivable	32,000	
Decrease in Value of Merchandise Inventories	40,000	
Total Deductions		87,000
Balance, Receiver's Account of Assets		$762,625

It will be noted that the balance shown by this statement is the total of the assets as returned to the corporation by the receiver on June 30, 1930:

EXHIBIT "B"

RECEIVER'S TRADING STATEMENT

Expenditures

Merchandise Inventory Received from the Estate at December 31, 1929	$155,000	
Merchandise Purchased	20,000	
Discount on Receiver's Certificates	2,250	
Interest on Receiver's Certificates	1,125	
Labor	24,000	
Taxes	5,000	
Expenses—Miscellaneous	2,000	
Expenses of Receivership	25,000	
Total Expenditures		$234,375

Income

Merchandise Inventory at close of Receivership	$115,000	
Sales of Merchandise	75,000	
Total Income		$190,000
Net Loss during Receivership Operation		$ 44,375

EXHIBIT "C"

RECEIVER'S CASH ACCOUNT

CASH RECEIVED

Balance Received from Estate		$ 55,000
Cash Receipts		
Sale of Merchandise	$75,000	
Accounts Receivable	32,000	
Notes Receivable	15,000	
Receiver's Certificates	75,000	
Total Cash Receipts		197,000
Total		$252,000

CASH DISBURSED

Merchandise Purchased	$20,000	
Labor	24,000	
Taxes	5,000	
Expenses—Miscellaneous	2,000	
Expenses of Receivership	25,000	
Receiver's Certificates	75,000	
Interest on Receiver's Certificates	1,125	
Discount on Receiver's Certificates	2,250	
Total Cash Disbursed		154,375
Balance, Cash in Receiver's Hands		$ 97,625

Entries on Corporation's Books when Receiver Takes Charge

The books of the corporation would be adjusted to reflect the receiver's activities as follows:

December 31, 1929

Surplus	$33,000	
Land	25,000	
Buildings		$25,000
Machinery and Equipment		5,000
Furniture and Fixtures		5,000
Accounts Receivable		3,000
Inventories		20,000
To correct asset valuations as per appraisal of this date.		

December 31, 1929

Receiver	$434,000	
Notes Payable	80,000	
Accounts Payable	65,000	
First Mortgage 6% Bonds	200,000	
Reserve for Depreciation of Building and Equipment	20,000	
Reserve for Bad Debts	8,000	
Land		$100,000
Buildings		225,000
Machinery and Equipment		120,000
Furniture and Fixtures		45,000
Cash		55,000
Notes Receivable		25,000
Accounts Receivable		82,000
Inventories		155,000
To record transfer of the company's assets and liabilities to the receiver.		

Entries on Corporation's Books When Receivership is Terminated

At the time the receivership is terminated the Assets and Liabilities will be taken back on the books of the corporation by the following entries. It will be noted that the values shown are the values as returned by the receiver on June 30, 1930.

June 30, 1930

Land	$100,000	
Buildings	225,000	
Machinery and Equipment	120,000	
Furniture and Fixtures	45,000	
Cash	97,625	
Notes Receivable	10,000	
Accounts Receivable	50,000	
Merchandise Inventories	115,000	
Notes Payable		$ 80,000
Accounts Payable		65,000
First Mortgage 5% Bonds		200,000
Reserve for Depreciation of Buildings and Equipment		20,000
Reserve for Bad Debts		8,000
Receiver		389,625
To record the Assets and Liabilities returned this day by the Receiver.		

Surplus	$44,375	
Receiver		$44,375

To close the receiver's account and take up the loss during receivership period.

Nature of Statement of Affairs

The Statement of Affairs, peculiar to insolvent businesses, is prepared to show to interested parties what they might expect to receive if the company were forced to go through the process of liquidation.

The Statement of Affairs can be compared to the balance sheet, since it contains all the items of Assets and Liabilities which appear on the balance sheet. There is, however, a point of difference between the two statements which can best be understood by considering in each case the respective methods of treatment of the Assets and Liabilities.

The balance sheet places a valuation upon the assets from the standpoint of a going concern. These book values may be larger or smaller than the realized values if liquidation becomes necessary.

For instance, if the company has not made allowance for proper depreciation, nor provided for possible bad debts included among its accounts and notes receivable, nor shown the change in the book value of securities when the market price is lower, etc., then the book values show higher figures than their realizable values.

Conversely, if the market price of securities is higher than the book value, or if the depreciation of an asset has been excessive, the book value of course will not represent realizable values.

Contents of Statement of Affairs

The Statement of Affairs purports to show both the book value and the probable value that will be realized. This statement with its accompanying deficiency account is considered from a strictly accounting standpoint as existing only in theory. Forms of a Statement of Affairs and a Deficiency Account have been prepared in various instances for the benefit of receivers, bankers and others who desire to see the financial position of a corporation, not under regular or going operations, but to show what the assets would realize and the relative positions of the different classes of creditors, and ultimately how the stockholders would fare under possible forced liquidation of the business.

Liabilities are listed on the balance sheet under their respective groupings, as "Current," "Fixed," etc. The Statement of Affairs, however, takes cognizance of the

fact that liabilities from the liquidation standpoint fall into different groupings. These are as follows:

Preferred Claims.
Claims fully secured.
Claims partially secured.
Unsecured claims.

Preferred creditors are those who have a lien on assets in the hands of the receiver.

Fully secured creditors hold securities equal to or greater than their claim amounts.

Partially secured creditors hold securities which are less in value than their claims.

Unsecured creditors hold no securities of any kind.

The asset side of the Statement of Affairs is constructed as follows:

1. The company's assets are shown in the order in which they would probably be realized.

2. If any assets are pledged to secure the payment of certain liabilities in full, such liabilities are deducted from the appraised asset valuations as shown in the statement.

3. If there are any partially secured liabilities, the total of the liabilities partially secured is also deducted from the appraised asset valuations.

4. The remainder of the appraised, or so-called "net free assets" is then totaled on the statement.

The liability side of the statement shows the book values of all liabilities classified as previously explained:

A. Preferred claims.
B. Claims fully secured.
C. Claims partially secured.
D. Unsecured claims.

1. The preferred claims are shown first. The deduction, however, is made from the appraised value of net free assets which appears on the asset side of the sheet.

2. Fully secured claims are deducted from the assets pledged to them.

3. From the partially secured liabilities are deducted the appraised value of assets which are pledged to them and the unsecured balance represents the amount due unsecured creditors which is carried to the "Expected to Rank" column.

The statement then shows either the amount by which the unsecured liabilities exceed the appraised value of the free assets, or the excess of the free assets over the unsecured liabilities. The former is usually the result rather than the latter.

Illustrative Problem

As an illustration of the preparation of a statement of affairs the following problem is presented:

The Bush Construction Company, Inc. is unable to meet its obligations and, therefore, is forced to liquidate its business. The following trial balance is prepared from the company's books at the time the receiver takes over the affairs:

THE BUSH CONSTRUCTION COMPANY, INC.
TRIAL BALANCE AT
December 31, 1929

Cash	$ 600	
Land and Buildings	11,000	
Mortgages Payable		$ 9,000
Plant & Equipment	21,000	
Creditors		60,400
Completed Contracts (Loss)	19,000	
Uncompleted Contracts (Outlays)	31,000	
Securities Acquired in Settlements	16,000	
Accounts Receivable on Completed Contracts	7,000	
Materials Inventory	3,000	
Expenses	7,500	
Deficit	8,300	
Capital Stock		55,000
	$124,400	$124,400

The following facts are ascertained:

1. An additional outlay of $21,000 will be required to finish the work on uncompleted contracts in order to collect the contract price of $42,000.

2. The sureties on the unfinished contracts offer to take over the materials on hand for $1,600 as part of the above mentioned additional cost.

3. Securities of $6,000 are pledged to secure $10,000 due creditors, and $10,000 of securities are pledged to secure $8,000 due creditors.

THE BUSH CONSTRUCTION COMPANY, INC.
STATEMENT OF AFFAIRS
AS OF DECEMBER 31, 1929

Nominal Value of Assets	ASSETS		Expected to Realize	Total Liabilities	LIABILITIES		Expected to Rank
$ 600.	Cash on Hand		$ 600.	$ 1,500.	Preferential Creditors: Taxes	$ 100.	
11,000.	Land and Buildings	$ 9,000.			Salaries and Wages	1,400.	
	Less: Mortgage (see contra)	9,000.			Deducted per Contra	1,400.	
7,000.	Accounts Receivable on Completed Contracts	7,000.	6,000.	8,000.	Creditors Fully Secured	8,000.	
	Less: Bad Debts	1,000.			Securities Pledged	10,000.	
16,000.	Securities Acquired in Settlement					2,000.	
	Pledged to Partly Secured Creditors	6,000.			Surplus to Contra		
	Pledged to Fully Secured Creditors	10,000.	2,000.	9,000.	Mortgage - Fully Secured by Land and Buildings (see contra)	9,000.	
	Surplus from Securities (see contra) ($10,000. pledged to secure $8,000.)						
3,000.	Materials on Hand, Earned over to Surplus (see contra)	1,600.		21,000.	Advances necessary to complete contracts Less: Stock of materials on Hand taken over at	21,000. 1,600.	
21,000.	Plant and Equipment		1,260.	10,000.	Creditors Partially Secured Securities Pledged	10,000. 6,000.	$ 4,000.
31,000.	Cost of Uncompleted Contracts	42,000.					
	Contracts Complete - Less: Cash Required to Complete $21,000. less Material Allowance $1,600. (see contra)	19,400.	22,600.	42,400.	Creditors Unsecured Partially Secured Covered by Pledged Securities	60,400. 18,000.	42,400.
	Deduct: Preferential Creditors Taxes	100.	$ 32,400.	1,500.	Customers: Notes Discounted ($1,500. will be dishonored by Customers)		1,500.
	Salaries and Wages (see contra)	1,400.	1,500.				
	Net Free Assets Available for division among Unsecured Creditors						
	Ratio of Solvency $.6465 per Dollar. Subject to Receiver's Fees and Expenses, Trustee's Fees and expenses of Receivership		30,960.				
3,800.	Deficiency in Business and on Realization Accounts (See Deficiency Account - Exhibit "B")		16,940.				
$ 93,400.			$ 47,900.	$ 93,400.			$ 47,900.

Fig. 114: Statement of Affairs—Bush Construction Company, Inc.

4. The corporation owes
   $ 100 for taxes on real estate
   $1400 for salaries and wages of employees

5. Customers' notes receivable of $3,000 have been discounted, $1,500 of which amount will be dishonored; and a debtor owing $1,000 has failed and the amount is uncollectible.

6. The amount realized on land and buildings is estimated to be sufficient to satisfy the mortgage only.

7. Only $1,260 will be realized on the sale of plant and equipment.

Analysis of Statement of Affairs

A study of the Statement of Affairs shown in Fig. 114 will show that the "Expected to Realize" column sets forth the estimated amount of those assets which the receiver anticipates will come into his hands. As against this, the "Expected to Rank" column will show the unsecured creditors' claims which are to be met from the assets shown as "Expected to Realize."

It will further be seen that the fully secured creditors receive payment from the proceeds of the securities they hold. Any balance remaining reverts to the receiver as part of the "Expected to Realize" assets.

However, in the case of partially secured creditors, no assets ever come into the possession of the receiver. The security values are deducted from the claim which they partially cover and the balance of the liability is treated the same as unsecured credits and shown in the "Expected to Rank" column.

The unsecured creditors depend wholly on the "Expected to Realize" assets and, therefore, are listed as "Expected to Rank."

The preferred liabilities have liens upon all the company's free assets. They are deducted from the total of such assets, and, therefore, do not appear in the "Expected to Rank" column.

The ratio of solvency is found by dividing the "Net Free Assets Available" ($30,960) by the liabilities "Expected to Rank" ($47,900).

The Deficiency Account

Just as the Statement of Affairs bears a close relationship to the Balance Sheet so the Deficiency Account bears a relationship to the Profit and Loss Account.

THE BUSH CONSTRUCTION COMPANY, INC.
DEFICIENCY ACCOUNT
AS OF DECEMBER 31, 1929

Accounted for Prior to Receivership:		To Be Accounted For:	
Completed Contracts	$ 19,000.	Capital as shown by Balance Sheet at time Receiver takes charge	$ 55,000.
Expenses of Business	7,500.		
Losses of Previous Period shown by Deficit Account	8,100.		
Losses on Operations	$ 34,600.		
Preferential Claims			
Taxes (Omitted from Books)	100.		
Salaries and Wages (Omitted from Books)	1,400.		
Contingent Liability for Endorsement on Discounted Notes Receivable now Looking against Company	1,500.		
Capital Shrinkage - due to Business Reverses	$ 37,600.		
Balance of remaining Capital - carried forward	17,400.		
	$ 55,000.		$ 55,000.
Outlays necessary to finish contracts in process	$ 21,000.	Capital Remaining - brought forward	$ 17,200.
		Deficiency: Difference between nominal value of Assets and Gross Liabilities - carried forward	3,800.
	$ 21,000.		$ 21,000.
Deficiency as shown above - brought down	$ 3,800.	Price to be Realized on Contracts when completed	$ 12,000.
Accounted for by Receiver's Estimate of Losses on Realization of Assets:		Less - Amounts contingent on Sale of Receivership	1,000.
Materials on Hand	$ 1,400.	Nominal Gain on Contracts (Subject to Outlays of $21,000. necessary to finish work - per contra)	$ 11,000.
Less through Bankruptcy of Debtor	1,000.		
Land and Buildings	2,000.		
Plant and Equipment	19,740.	Deficiency as shown in Statement of Affairs (Exhibit "A")	16,940.
	$ 24,140.		$ 27,940.
	$ 27,940.		

Fig. 115: Deficiency Account—Bush Construction Co., Inc.

THE LEWIS MANUFACTURING COMPANY, INC.
BALANCE SHEET AS AT
June 30, 1929

ASSETS		
Land		$ 45,000
Buildings		125,000
Machinery and Tools		55,000
Machine Parts		6,000
Furniture and Fixtures		3,000
Raw Materials		30,000
Goods in Process		20,000
Finished Goods		35,000
Accounts Receivable		25,000
Cash		5,000
Total Assets		$349,000
LIABILITIES AND CAPITAL		
Mortgage Payable		$150,000
Notes Payable		40,000
Accounts Payable		20,000
Reserve for Depreciation		45,000
Reserve for Bad Debts		4,000
Capital Stock Outstanding	$100,000	
Deficit	10,000	90,000
Total Liabilities and Capital		$349,000

Fig. 116: Balance Sheet, Lewis Manufacturing Co. Inc., June 30, 1929

The Deficiency Account supplements the Statement of Affairs and explains the causes of the losses which result in the company's inability to pay its creditors in full.

It begins by a statement showing the shrinkage in capital due to business reverses, resulting in a figure representing the company's net worth as it appears on the company's books at the time liquidation procedure begins to take place.

The profits made or losses sustained during the liquidation procedure are then added or deducted, resulting in a figure representing the deficiency to creditors as shown by the Statement of Affairs.

As an illustration of the Deficiency Account the preceding problem of The Bush Construction Company, Inc. is carried to its final analysis by showing the Deficiency Account in Fig. 115 as it would appear as a tie-up with the Statement of Affairs.

Sale Following Receivership

It sometimes happens in cases of receivership that efforts toward continuance of the business will fail. In such a case it is the receiver's duty to sell the corporate property, paying the expenses of the receivership and, as far as possible, the creditors. If there is any remainder, of course it belongs to the stockholders.

In order to illustrate the necessary procedure the following problem is given:

On June 30, 1929 the Lewis Manufacturing Company, Inc., at the request of creditors, was placed in the hands of a receiver. The receiver was to operate the business for a period of six months and if the operations were successful the company would reorganize; otherwise liquidation procedure would be resorted to.

The balance sheet as of June 30th 1929 was as shown in Figure 116.

Operations continued for six months but were found to be unprofitable and it was decided to dissolve the corporation.

The receiver succeeded in securing a buyer for the business. The Trader Corporation is to take over the business on the following terms:

1. The books are to be audited and the properties appraised.
2. The purchaser is to secure all the assets except cash and accounts receivable and take over the mortgage, the accrued interest and taxes.
3. It is to pay 80% of the appraised value of the net assets, half of which is to be in cash and half in capital stock of the purchasing corporation.

The audit disclosed the following facts:

A. Interest on the mortgage at 6% per annum was last paid on January 1, 1929.
B. Taxes accrued amount to $2,000.
C. Six months' interest @ 6% is due on the notes payable.
D. $5,000 of the accounts receivable are bad.

The appraisal values of the properties are as follows:

A. Land—$60,000.
B. Buildings—$115,000.
C. Machinery and Tools—$50,000
D. Machine Parts—$5,000.
E. Furniture and Fixtures—$2,000.
F. Raw Materials—$25,000.
G. Goods in Process—$18,000.
H. Finished Goods—$32,000.

The corporation collected $17,000 of the accounts receivable, paid all creditors in full and dissolved.

Entries on the Corporation's Books

The following entries record the procedure on the books of the corporation:

December 31, 1929

Profit and Loss	$12,200	
Interest Accrued on Mortgages Payable		$9,000
Taxes Accrued		2,000
Interest Accrued on Notes Payable		1,200
To record interest and taxes accrued at this date.		
Reserve for Bad Debts	$4,000	
Profit and Loss	1,000	
Accounts Receivable		$5,000
To reduce the Accounts Receivable by the amount estimated to be uncollectible.		
Land	$15,000	
Reserve for Revaluation of Assets	12,000	
Buildings		$10,000
Machinery and Tools		5,000
Machine Parts		1,000
Furniture and Fixtures		1,000
Raw Materials		5,000
Goods in Process		2,000
Finished Goods		3,000
To adjust the value of the property accounts as per appraisal figures.		
Reserve for Depreciation	$45,000	
Reserve for Revaluation of Assets		$45,000
To close the depreciation reserve as all accounts are now shown on the books at their appraised value.		
Deficit	$13,200	
Profit and Loss		$13,200
To close the Profit and Loss account.		

Balance Sheet at December 31, 1929

The balance sheet shown in Fig. 117 constructed at this point of the procedure is constructed in two parts. Part One represents the assets and liabilities to be taken over by the Trader Corporation and Part Two the remaining assets and liabilities which the corporation retains.

It will be noted that the terms of sale specify payment to be made by the Trader Corporation on the basis of 80% of the appraised value of the net assets which they

LEWIS MANUFACTURING COMPANY, INC.
BALANCE SHEET AS AT
DECEMBER 31, 1929

ASSETS		LIABILITIES & CAPITAL	
Land	$ 60,000.	Mortgages Payable	$150,000.
Buildings	115,000.	Interest Accrued on Mortgages Payable	9,000.
Machinery & Tools	50,000.	Taxes Accrued	2,000.
Machine Parts	5,000.	Net Assets (Carried Down)	146,000.
Furniture & Fixtures	2,000.		$307,000.
Raw Materials	25,000.		
Goods in Process	18,000.		
Finished Goods	32,000.	Notes Payable	40,000.
	$307,000.	Accounts Payable	20,000.
		Interest Accrued on Notes Payable	1,200
Net Assets (Brought Down)	146,000.	Reservation for Revaluation of Assets	33,000.
Cash	5,000.	Capital Stock $100,000	
Accounts Receivable	20,000.	Less - Deficit 23,200	76,800.
TOTAL ASSETS	$171,000.	TOTAL LIABILITIES & CAPITAL	$171,000.

Fig. 117: Balance Sheet—Lewis Mfg. Co., Inc., Dec. 31, 1929.

desire to purchase. According to the balance sheet this net asset valuation is $146,000, therefore the Trader Corporation pays $116,800.

Entries on Vendor's Books

The following entry closes these assets and liabilities on the books of the Lewis Manufacturing Company, Inc. It will be noted that the Trader Corporation is charged with the 80% value while the 20% differential is written off against the reserve for revaluation of assets:

January 2, 1930

The Trader Corporation	$116,800
Reserve for Revaluation of Assets	29,200
Mortgage Payable	150,000
Interest Accrued on Mortgage Payable	9,000
Taxes Accrued	2,000

Land	$ 60,000
Buildings	115,000
Machinery and Tools	50,000
Machine Parts	5,000
Furniture and Fixtures	2,000
Raw Materials	25,000
Goods in Process	18,000
Finished Goods	32,000

To record the sale of the "Net Assets" to the Trader Corporation at 80% of their value.

The Trader Corporation agreed to pay for these "Net Assets" by giving one-half in cash and one-half in capital stock of their corporation. The following entry records the receipt of the payment by the Lewis Manufacturing Company, Inc.

January 2, 1930

Cash	$58,400	
Capital Stock—Trader Corporation	58,400	
The Trader Corporation		$116,800

To record receipt of payment from the Trader Corporation for sale of Net Assets for $116,800; one-half in cash and one-half in capital stock.

Since the corporation collects only $17,000 of its accounts receivable, of a net total of $20,000, the balance is written off.

It will be noted from this point on, all losses incurred through procedure of liquidation will be charged to a liquidation account. The purpose of this account is to show the net loss of liquidation.

January 3, 1930

Cash	$17,000	
Liquidation Account	3,000	
Accounts Receivable		$20,000

To record receipt of $17,000 on accounts receivable; balance is lost in process of liquidation.

The corporation paid all its liabilities. The following entry records the payment:

January 4, 1930

Notes Payable	$40,000	
Accounts Payable	20,000	
Interest Accrued on Notes Payable	1,200	
Cash		$61,200

To record payment of all liabilities.

As all the property assets have been disposed of, the balance of the "Reserve for Revaluation" account should be closed to the Liquidation account.

January 4, 1930

Reserve for Revaluation of Assets	$3,800	
Liquidation Account		$3,800

To close the Reserve for Revaluation of Assets.

Assuming that the expenses incidental to the receivership and dissolution total $7,500 the following entry will record the payment:

January 4, 1930

Liquidation Account	$7,500	
Cash		$7,500

To record payment of expenses of Receivership and Dissolution.

At this point the Liquidation account and Deficit should be closed against the Capital account to show the proper "Net Worth" of the corporation.

January 4, 1930

Capital Stock	$29,900	
Deficit		$23,200
Liquidation Account		6,700

To close the Deficit and Liquidation accounts to the Capital account so as to have the Capital account reflect the corporation's net worth.

All the asset accounts of the corporation are now closed except the cash and capital stock of the Trader Corporation which should be distributed to the stockholders of the Lewis Manufacturing Company, Inc. The Capital Stock account is the only remaining liability on the books.

January 4, 1930

Capital Stock	$70,100	
Cash		$11,700
Capital Stock—Trader Corporation		58,400

To record the distribution of cash and capital stock of the Trader Corporation to the stockholders of this company.

Corporation's Accounts During Receivership

There are two methods of operating the corporate books during the course of the receivership.

1. They can be adjusted so as to be in harmony with the receiver's books by charging the receiver with the As-

sets and crediting him with the Liabilities, leaving only the Capital Stock, Receiver and Surplus or Deficit accounts on the books until the receivership terminates.

2. They can be continued as usual.

In the problem just illustrated the second method was followed as it gave an opportunity of showing the full details on the corporation's books as a normal procedure.

On the assumption that the receiver kept separate books of account at the time the terms of sale are negotiated, the balances would appear on the receiver's ledger as follows:

	Debits	Credits
Cash	$ 5,000	
Accounts Receivable	20,000	
Land	60,000	
Buildings	115,000	
Machinery and Tools	50,000	
Machine Parts	5,000	
Furniture and Fixtures	2,000	
Raw Materials	25,000	
Goods in Process	18,000	
Finished Goods	32,000	
Notes Payable		$ 40,000
Accounts Payable		20,000
Interest Accrued on Notes Payable		1,200
Mortgages Payable		150,000
Interest Accrued on Mortgages Payable		9,000
Taxes Accrued		2,000
Receiver's Equity Account		109,800
	$332,000	$332,000

The following journal entries would record the process of liquidation through sales on the receiver's books:

January 2, 1930

Realization and Liquidation Account	$116,800	
Loss on Liquidation	29,200	
Mortgage Payable	150,000	
Interest Accrued on Mortgage Payable	9,000	
Taxes Accrued	2,000	
Land		$ 60,000
Buildings		115,000
Machinery and Tools		50,000
Machine Parts		5,000
Furniture and Fixtures		2,000

Raw Materials		25,000
Goods in Process		18,000
Finished Goods		32,000

To record the sale of the "Net Assets" held by the receiver to the Trader Corporation at 80% of their value and to set up the 20% loss on liquidation.

January 2, 1930

Cash	$58,400	
Capital Stock—Trader Corporation	58,400	
Realization and Liquidation Account		$116,800

To record receipt of payment from the Trader Corporation as per terms of sale.

January 3, 1930

Cash	$17,000	
Loss on Liquidation	3,000	
Accounts Receivable		$20,000

To record receipt of $17,000, on accounts receivable of $20,000. Balance written off as uncollectible.

January 4, 1930

Notes Payable	$40,000	
Accounts Payable	20,000	
Interest Accrued on Notes Payable	1,200	
Cash		$61,200

To record payment of all liabilities as of this date.

January 4, 1930

Loss on Liquidation	$7,500	
Cash		$7,500

To record payment of expenses of liquidation.

January 4, 1930

Receiver's Equity Account	$39,700	
Loss on Liquidation		$39,700

To close the Loss on Liquidation against the Receiver's Equity.

January 4, 1930

Receiver's Equity Account	$70,100	
Cash		$11,700
Capital Stock—Trader Corporation		58,400

To record the transfer of all assets in the hands of the receiver to the stockholders of the Lewis Manufacturing Company, Inc.

The books of both the corporation and the receiver are now closed.

1—The trustee in bankruptcy is appointed by the court.

2—The trustee makes an inventory and, appraises the properties taken over in order to show the financial condition of the company.

3—A statement is prepared, usually similiar in design and arrangement to the Statement of Affairs (see Chapter XXX) which shows the probable amount that may be realized from the sale of the assets, also the relative positions of the creditors as to their preferences, securities held and the amounts unsecured creditors will probably receive.

4—The trustee usually opens a new set of books. All accounts are transferred to the trustee's general ledger. A new cash book is started and a complete record is kept of all cash received and disbursed.

5—The properties are ordered sold by the court and the trustee begins to effect sales of the assets and collect the outstanding accounts of the corporation.

6—The trustee, of course, is to exercise due diligence and care in disposing of the properties. It is presumed that the assets are to be sold at the highest possible prices obtainable under the circumstances. The trustee may call for bids and if this method is not satisfactory he may apply to the court for an order to sell the property at auction. The shortening of the period of time required to close the estate will reduce the cost of administration of the trustee.

7—The liabilities are liquidated as soon as possible after the cash has been received by the trustee. One or more dividends, subject to the approval of the court, may be paid to the creditors. The trustee must report to the court as to the status of the cash account and request permission to make distribution of a certain percentage of the cash as a dividend to the creditors.

8—All cash received should be entered in the cash receipts journal of the trustee. Likewise all cash expended, properly supported by vouchers, should be recorded in the cash disbursements journal.

9—Any losses or gains arising from the transactions are entered in an account usually entitled "Deficiency." The unpaid balances (after the final dividend has been paid) of creditors are transferred to the credit of the "Deficiency" account.

10—The capital stock, reserves and surplus or deficit appearing on the books are also closed into the "Deficiency" account.

11—The books at this stage, after all the entries have been made will show all asset and liability accounts closed. The "Deficiency" account will also appear in balance.

Fig 118: Accounting Procedure in Bankruptcy Proceedings

If both the company and the receiver kept separate sets of books, on the company's books Receiver's account would appear debited and credited for $116,800 instead of Trader Corporation, with corresponding change in explanation of entries.

Dissolution

Dissolution of a corporation within the contemplation of the law has been defined as that condition of law and fact which ends the capacity of the body corporate to act as such and necessitates a final liquidation and extinguishment of all the legal relations subsisting in respect to the corporate enterprise. The qualification is sometimes imposed that there is no dissolution unless the corporation has lost all power to continue or to resume its business as a going concern.

Fletcher on "Private Corporations" enumerates the following ways in which a corporation may be dissolved:

1. By an act of the legislature repealing or withdrawing its charter, provided the legislature, in granting the charter, has reserved the power to repeal the same, but not otherwise.
2. By the expiration of a time limited for the continuance of its corporate existence.
3. By the happening of some contingency prescribed in its charter.
4. By the failure or loss of some integral part of the corporation, so that it cannot longer exist.
5. By a surrender of its charter, provided the surrender is authorized or accepted by the state.
6. By the forfeiture of its charter in judicial proceedings.

Accounting Procedure in Dissolutions

In cases of voluntary dissolutions of solvent corporations there are no special accounting problems. In the process of winding up, the collection of accounts and the payments of bills proceed as usual. The appropriate entries are made in the Cash account, losses closed into Profit and Loss, or Deficiency, and gains into Surplus, and Surplus in turn is closed into the Capital Stock account.

It is only in the event of insolvency that the special accounting procedures become necessary as discussed in preceding pages. In the majority of cases, if the affairs of the corporation are too involved to permit the business to con-

NORTHERN TIMBER COMPANY GENERAL BALANCE SHEET AS OF DECEMBER 31, 1929, AT TIME TRUSTEE IN BANKRUPTCY TOOK CHARGE

Item			
1	Cash in Bank	$ 5,000	
2	Notes Receivable	50,000	
3	Accrued Int. on Notes Receivable	6,000	
4	Accounts Receivable	159,000	
5	Timber Property	600,000	
6	Cut Timber Inventory	225,000	
7	Sinking Fund (in hands of Trustee for Bondholders)	200,000	
8	Investments in Stocks	60,000	
9	Equipment	72,000	
10	Taxes Accrued on Property		$3,000
11	Salaries and Wages Accrued		7,000
12	Notes Payable		123,000
13	Accounts Payable		240,000
14	First Mortgage Sinking Fund 6% Bonds		400,000
15	Interest Accrued on First Mortgage Sinking Fund 6% Bonds		12,000
16	Reserve for Depletion of Timber Property		300,000
17	Reserve for Sinking Fund		200,000
18	Reserve for Depreciation of Equipment		42,000
19	Capital Stock		100,000
20	Deficit at January 1, 1929	50,000	
		$1,427,000	$1,427,000

Fig. 119: General Balance Sheet—Northern Timber Co., Dec. 31, 1929

tinue with the cooperation of the creditors, proceedings in bankruptcy will be instituted and the business wound up. There will then be an administration of the bankrupt estate by the trustee in bankruptcy.

It should be noted that the occurrence of bankruptcy proceedings does not operate in itself as a dissolution of the corporation. The corporation's existence continues until terminated in one of the ways enumerated in the preceding discussion. To avoid the possible liability of directors to statutory penalties, it is advisable to have the corporation formally dissolved as provided by the state laws.

Accounting Procedure in Case of Bankruptcy

An enumeration of the accounting steps necessary to be taken in Bankruptcy proceedings is shown in Fig. 118.

The problem that follows serves to illustrate the ac-

AS TO ASSETS:

1—Cash in Hamilton National Bank taken over by trustee.

2—Notes Receivable of $35,000 were collected; balance of $15,000 bad.

3—The Interest Accrued on notes was collected in full ($6,000).

4—Accounts Receivable collected $90,000; $69,000 bad.

5—The Timber Land was sold by trustee for bondholders for $250,000, who sent to trustee for company net amount of $38,000, after deducting balance due on bonds and interest accrued.

6—The Cut Timber Inventory realized $80,000; a loss of $145,000.

7—Sinking Fund was paid to bondholders by trustee for bondholders.

8—Investments in stocks were sold for $35,000 at a loss of $25,000.

9—The Equipment sold for $55,000. There were chattel mortgages on the equipment as follows—for notes payable fully secured $15,000, and accounts payable fully secured $20,000. The partially secured items were notes payable of $5,000 and accounts payable of $10,000.

AS TO LIABILITIES, RESERVES AND CAPITAL:

10—The Taxes accrued on the property were paid—(preferred claim).

11—The Salaries and Wages were paid—(preferred claim).

12—The Notes Payable were settled as follows:
Fully Secured $15,000 and Partially Secured $5,000, were paid from the sale of "Equipment" as per chattel mortgage liens. The balance of $103,000 represented unsecured creditors.

13—The Accounts Payable were settled as follows:
Fully Secured $20,000 and Partially Secured $10,000, were paid from sale of equipment as per chattel mortgage liens. The balance of $210,000 represented unsecured creditors.

14—The First Mortgage Sinking Fund 6% Bonds were paid by Trustee for bondholders.

15—Interest Accrued also paid to bondholders by trustee for bondholders.

16—The Reserve for Depletion of Timber Property was closed into Timber Property Account.

17—The Reserve for Sinking Fund was closed into the Deficiency Account.

18—The Reserve for Depreciation of Equipment was closed into the Equipment Account.

19—The Capital Stock was closed into the Deficiency Account.

20—The Deficit at January 1, 1929 was transferred to the Deficiency Account.

Fig. 119a: Explanatory Data Appended to Balance Sheet (Fig. 119)

REALIZATION AND LIQUIDATION ACCOUNT
OF NORTHERN TIMBER COMPANY
JUNE 1, 1930

ACCOUNT OF ASSETS

Assets to be Realized:		Assets Realized:		
Cash (as shown in Cash Account)	$	Cash on Deposit (as shown in Cash Account)	$	
Notes Receivable	50,000.00	Notes Receivable		35,000.00
Accrued Interest on Notes Receivable	6,000.00	Accrued Interest on Notes Receivable		6,000.00
Accounts Receivable	159,000.00	Accounts Receivable		90,000.00
Timber Property (Net)	300,000.00	Timber Property (sold by trustee for bondholders)		250,000.00
Cut Timber Inventory	225,000.00	Cut Timber Inventory		80,000.00
Sinking Fund (with trustee for bondholders)	200,000.00	Sinking Fund (held by trustee for bondholders)		200,000.00
Investment in Stocks	60,000.00	Equipment		55,000.00
Equipment (Net)	30,000.00	Investment in Stocks		35,000.00
Total Assets to be Realized	$ 1,030,000.00	Total Assets Realized	$	751,000.00
Additional Charges:		Additional Credits:		
Increase in value of assets over book amount		Losses sustained on Assets Realized--		
Equipment	25,000.00	Notes Receivable		15,000.00
		Accounts Receivable		69,000.00
		Timber Property		50,000.00
		Cut Timber Inventory		145,000.00
		Investments in Stock		25,000.00
Total Assets on Books	$ 1,055,000.00	Total Assets Credited	$ 1,055,000.00	

Fig. 120: Account of Assets—Northern Timber Co., June 1, 1930

ACCOUNT OF LIABILITIES

Liabilities Liquidated:		Liabilities to be Liquidated:		
Preferred Claims	$ 10,000.00	Preferred Claims--		
Secured Creditors	447,000.00	Taxes on Property	$ 3,000.00	$ 10,000.00
Partially Secured Creditors	15,000.00	Salaries and Wages	7,000.00	
Unsecured Creditors--		Secured Creditors--		447,000.00
First Dividend 50%	156,500.00	Bonds Outstanding and Interest	412,000.00	
Second and Final Dividend 34.984%	109,500.00	Notes Payable	15,000.00	
Total	738,000.00	Accounts Payable	20,000.00	
Additional Liabilities Liquidated:		Partially Secured Creditors--		15,000.00
Incurred on account of Commissions and Expenses of Trustee	18,000.00	Notes Payable	5,000.00	
		Accounts Payable	10,000.00	
		Unsecured Creditors--		313,000.00
		Notes Payable	103,000.00	
		Accounts Payable	210,000.00	
Total Liabilities Liquidated	$ 756,000.00	Total Liabilities to be Liquidated		$ 785,000.00
Balance representing loss to Creditors carried to Deficiency Account	47,000.00	Additional Credits: Commissions and Expenses of Trustee (Preferred Lien on Cash)		18,000.00
	$ 803,000.00			$ 803,000.00

Fig. 120a: Account of Liabilities—Northern Timber Co., June 1, 1930

counting procedure and the entries that are necessary to record the transactions of a corporation that becomes bankrupt.

The Northern Timber Company is unable to meet its obligations and as a result is forced into bankruptcy by the creditors.

The balance sheet shown in Fig. 119 is prepared from the company's records at the time the trustee takes charge and the realization and liquidation is started. The other facts as stated in Fig. 119a would be shown at the foot of the balance sheet Fig. 119 and relate to the transactions as finally consummated by the trustee. These facts refer to the amounts realized on the sale of the assets, collection of accounts and the acceptance of proved claims of the creditors for the amounts as stated on the books.

Trustee's Books

It is the usual practice for the trustee to open a new set of books into which are carried all the accounts of the company. In rare instances, however, where the bankrupt's business was small and now represents a comparatively meagre estate, the trustee may continue the books of the bankrupt and record therein all transactions under the realization and liquidation.

In a small estate, therefore, the trustee may desire to transfer all the assets and liabilities to a realization and liquidation account. On the other hand where the bankruptcy estate comprises a large number of assets the sales of which would have to be made in "piecemeal" fashion, it would hardly be practicable to transfer all such assets and also the liabilities to a realization account. It would not be feasible to do this because all the details of the transactions could not be clearly shown. The trustee, therefore, after carrying the accounts into his own books, would have each account appear under its proper caption, and show subsequently all the transactions in detail in each respective asset or liability account.

Under this plan the trustee will be able to see readily the full history of all the partial sales made against a particular asset, and incidentally how the liabilities have been finally liquidated. This method of account arrangement will prove of invaluable aid to the trustee in the preparation of his "Summary Statement" with its supporting schedules which must be submitted to the court.

In the illustration, however, it is assumed that all the assets and liabilities, when the bankrupt estate is taken over, are transferred immediately by the trustee to the realization and liquidation account. The formal entries that are set forth cover the trustee's transactions with regard to the assets and liabilities of the Northern Timber Company.

Entry No. 1

Reserve for Depletion of Timber Property	$300,000	
Reserve for Depreciation of Equipment	42,000	
Timber Property		$300,000
Equipment		42,000

To close out reserves and bring down property accounts to net book values.

Entry No. 2

Realization & Liquidation	$1,030,000	
Notes Receivable		$ 50,000
Accrued Interest on Notes Receivable		6,000
Accounts Receivable		159,000
Timber Property		300,000
Cut Timber Inventory		225,000
Sinking Fund (With Trustee for Bondholders)		200,000
Investments in Stocks		60,000
Equipment		30,000

To record transfer of assets taken over by trustee.

Entry No. 3

Taxes accrued on Property	$ 3,000	
Salaries and Wages Accrued	7,000	
First Mortgage S. F. 6% Bonds Issued	400,000	
Interest Accrued on F. M. S. 6% Bonds	12,000	
Notes Payable	123,000	
Accounts Payable	240,000	
Realization & Liquidation		$785,000

To record transfer of liabilities, the liquidation of which has been taken over by trustee.

Entry No. 4

Cash	$ 38,000	
Realization & Liquidation (F. M. 6% Bonds)	200,000	
Realization & Liquidation (Interest Accrued on Bonds)	12,000	
Realization & Liquidation (Timber Property)		$250,000

For balance of cash received from trustee for bondholders as shown by following statement:

NORTHERN TIMBER COMPANY, BANKRUPT

DEFICIENCY ACCOUNT

AT JUNE 1, 1930 (AT END OF TRUSTEE'S ACCOUNTING)

DEBITS			CREDITS		
Deficit at January 1, 1929		$ 50,000.00	Capital Stock Investment		$ 100,000.00
Losses from Sale of Assets--			Reserve for Sinking Fund		200,000.00
Notes Receivable	$ 15,000.00		Total		300,000.00
Accounts Receivable	69,000.00				
Timber Property	50,000.00		Profit from Sale of Assets--		
Cut Timber Inventory	145,000.00		Equipment		25,000.00
Investments in Stock	25,000.00	304,000.00			
			Unliquidated Claims--		
Expenses of Realization and Liquidation--			Notes Payable	$ 15,466.50	
Commissions and Expenses of Trustee		18,000.00	Accounts Payable	31,533.50	47,000.00
		$ 372,000.00			$ 372,000.00

Fig. 121: Deficiency Account—Northern Timber Co.

NORTHERN TIMBER COMPANY, BANKRUPT

CASH ACCOUNT OF TRUSTEE

RECEIPTS		DISBURSEMENTS	
Balance on Hand	$ 5,000.00	Preferred Claims	$ 10,000.00
Notes Receivable	35,000.00	Secured Creditors	35,000.00
Accrued Interest on Notes Receivable	6,000.00	Partially Secured Creditors	15,000.00
Accounts Receivable	90,000.00	First Dividend to Creditors	156,500.00
Timber Property (Net amount sent by trustee of bondholders)	38,000.00	Commissions and Expenses of Trustee	18,000.00
Cut Timber Inventory	80,000.00	Final Dividend to Creditors	109,500.00
Investments in Stocks	35,000.00		
Equipment	55,000.00		
	$ 344,000.00		$ 344,000.00

Note: Sinking Fund Cash of $200,000.00 and Part Proceeds from Sale of Timber Property of $212,000.00, totalling $412,000.00, is retained by trustee for bondholders. The only cash that appears in Cash Account is $38,000.00, the excess amount returned to trustee for company.

Fig. 122: Cash Account of Trustee—Northern Timber Co.

Cash received from foreclosure sale of property		$250,000
Less amounts due bondholders, for balance of outstanding bonds in excess of sinking fund	$200,000	
For interest accrued	12,000	212,000
Net cash returned to trustee		$ 38,000

Entry No. 5

Cash $55,000
  Realization & Liquidation (Equipment) $55,000
    To record sale price of equipment.

Entry No. 6

Cash $131,000
  Realization & Liquidation (Notes Receivable) $35,000
  Realization & Liquidation (Accounts Receivable) ... 90,000
  Realization & Liquidation (Accrued Interest on Notes Receivable) 6,000
    To record cash collected on outstanding accounts and notes receivable plus accrued interest.

Entry No. 7

Cash $80,000
  Realization & Liquidation (Cut Timber Inventory) .. $80,000
    To record sale price of cut timber.

Entry No. 8

Cash $35,000
  Realization & Liquidation (Investments in Stocks) ... $35,000
    For cash collected on sale of stock investments.

Entry No. 9

Deficiency Account $18,000
  Realization & Liquidation $18,000
    To set up amount of commissions and expenses of trustee.

    Note: Ordinarily these expenses would be paid directly from cash at different times for services of clerical hire, etc.

Entry No. 10

Realization & Liquidation (Taxes on Property) $3,000
Realization & Liquidation (Salaries & Wages) 7,000
  Cash $10,000
    To record payment of Taxes and Salaries & Wages as preferred claims.

District Court of United States
For the Northern District of Maine

In the Matter
of
Judicial Settlement
And Final Accounting
of
Charles Snyder, Trustee
of Estate of
Northern Timber Company, in Bankruptcy

Final Account of
Charles Snyder, Trustee in Bankruptcy
For the Estate of Northern Timber Company, Bankrupt

June 1, 1930.

The Trustee Charges Himself with -			
For Cash in Hamilton National Bank, taken over			$ 5,000
For Amounts Collected from Notes Receivable			35,000
For Amount of Accrued Interest Collected on Notes Receivable			6,000
For Amounts Collected from Accounts Receivable			90,000
For Proceeds on Sale of Cut Timber Inventory			80,000
For Proceeds on Sale of Equipment ($50,000 covered by Chattel Mortgages-See Contra)			55,000
For Proceeds on Sale of Investments in Stocks			35,000
For Amount received from Trustee for Bondholders, representing Excess of sale price of Timber property after payment of First Mortgage Bonds			38,000
Sinking Fund in hands of Trustee for bondholders	$200,000		
Cash from Sale of Timber Property by Trustee	250,000		
Total Cash	$450,000		
Amount of First Mortgage S.F. 6% Bonds Issued	$400,000		
Interest accrued in First Mortgage S.F. 6% Bonds	12,000	412,000	
Total Debits			$344,000

The Trustee Credits Himself with -		
For payment of Preferred Claims		
Taxes on Property	$	3,000
Salaries and Wages		7,000
For payment of Fully Secured Creditors (from sale of equipment - per contra)		
Notes Payable		15,000
Accounts Payable		20,000
For payment of Partially Secured Creditors (from sale of Equipment - per contra)		
Notes Payable		5,000
Accounts Payable		10,000
For Payments to Unsecured Creditors		
First Dividend 50% on Total Claims of $313,000		156,500
For Payment of Administration and Commission Fees of Trustee		18,000
For Payment of Final Dividend to Unsecured Creditors by order of the Court (34.984%)		109,500
Total Payments	$	344,000

Charles Snyder
Trustee

Fig. 123: Final Accounting of Trustee

Entry No. 11

Realization & Liquidation	$18,000	
Cash		$18,000

To record payment of trustee's commissions and expenses.

Entry No. 12

Deficiency Account	$304,000	
Realization & Liquidation (Notes Receivable)		$ 15,000
Realization & Liquidation (Accounts Receivable)		69,000
Realization & Liquidation (Timber Property)		50,000
Realization & Liquidation (Cut Timber Inventory)		145,000
Realization & Liquidation (Investments in Stocks)		25,000

To close unrealized balances on above shown assets.

Entry No. 13

Realization & Liquidation (Equipment)	$25,000	
Deficiency Account		$25,000

To close out excess amount realized on sale of equipment over book value.

Entry No. 14

Realization & Liquidation (Notes Payable—fully secured)	$15,000	
Realization & Liquidation (Accounts Payable—fully secured)	20,000	
Cash		$35,000

For payment of fully secured notes and accounts payable.

Entry No. 15

Realization & Liquidation (Notes Payable—Partially Secured)	$5,000	
Realization & Liquidation (Accounts Payable—Partially Secured)	10,000	
Cash		$15,000

For payment of partially secured notes and accounts payable.

Entry No. 16

Realization & Liquidation (Notes Payable—Unsecured)	$51,500	
Realization & Liquidation (Accounts Payable—Unsecured)	105,000	
Cash		$156,500

For first payment representing dividend of 50% on $313,000 of unsecured creditors.

Entry No. 17

Realization & Liquidation (Notes Payable—Unsecured)	$36,033.50	
Realization & Liquidation (Accounts Payable—Unsecured)	73,466.50	
Cash		$109,500

For payment of second and final dividend of 34.984% of Notes Payable of $103,000 ($36,033.50)
of 34.984% of Accounts Payable of $210,000 ($73,466.50)

Total Payment—Final Dividend $109,500.00

Entry No. 18

Realization & Liquidation (Notes Payable—Unsecured)	$15,466.50	
Realization & Liquidation (Accounts Payable—Unsecured)	31,533.50	
Deficiency Account		$47,000

To close and transfer portions of unliquidated notes and accounts payable of unsecured creditors to Deficiency Account.

Entry No. 19

Capital Stock	$100,000	
Reserve for Sinking Fund	200,000	
Deficiency Account		$300,000

To close accounts as above shown to Deficiency Account.

Entry No. 20

Deficiency Account	$50,000	
Deficit (At December 31, 1929)		$50,000

To transfer deficit at beginning of realization and liquidation accounting.

Final Accounting of Trustee

Ordinarily no large or involved bankruptcy estate can be settled within a short time. The trustee may be obliged to negotiate with creditors or others in regard to the disposition of the assets and the settlement of claims. It may require considerable time before these matters are finally settled. However, instead of having the creditors wait until the entire estate has been closed, interim dividends are

usually paid which are in each case sanctioned and approved by the court.

The trustee or the accountant engaged to do the work prepares the necessary accounting for the court to pass upon and approve the transactions of the estate in bankruptcy. Intermediate accounts may be furnished to the court up to a particular date, prior to filing the final accounting.

The statement of Final Account in bankruptcy shown in Fig. 123, although simple in form and content, will nevertheless serve as a guide to the accountant in making up his figures for the final accounting. A number of exhibits and schedules in support of the figures stated in the summary usually accompany the trustee's statement.

SECTION FOUR

TAXES

Federal Income Tax

The Federal Income Tax Laws place corporations in a separate class from individuals. A different rate of taxation is prescribed. Although the manner of computing gross income is practically the same in each case, there are (1) special provisions of the Federal tax laws which relate to corporations only and (2) certain differences in results of applications of the Federal tax laws due to the peculiar legal nature of the corporation.

Corporations are now taxed under the United States Revenue Act at the rate of 11 per cent upon their annual net income for the year 1929.

The Federal Income Tax Return must be filed on or before the 15th of March or within 2½ months after the close of the fiscal year by every corporation which is not expressly exempted by the Act. As provided in the Act and in the report form, the report must contain details of gross income, deductions and credits. The gross income of corporations practically embraces all gain, profit and income derived from the transaction of their business.

Deductions

Deductions allowed from gross income include (1) all the ordinary and necessary expenses of the business paid or incurred during the taxable year; (2) all interest paid or accrued within the taxable year on its indebtedness except on indebtedness incurred or continued to purchase or carry obligations, the interest on which is wholly exempt from taxation; (3) taxes paid or accrued within the taxable year except certain specified taxes, including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, but this paragraph shall not exclude the allowance as a deduction of so much of such taxes as is properly allocated to maintenance or interest charges; (4) losses sustained during the taxable year and not compensated for by insurance or otherwise (except losses claimed to have been sustained from sale of stock when within 30 days before or after such sale the stockholder has

acquired or entered into a contract or option to acquire substantially identical property, and the property so acquired is held by the taxpayer, for a period after such sale or other disposition); (5) debts ascertained to be worthless and charged off within the taxable year (or in the discretion of the Commissioner, a reasonable addition to a reserve for bad debts); (6) the amount received in dividends from a domestic corporation or from any foreign corporation when it is shown to the satisfaction of the Commissioner that more than 50 per centum of the gross income of such foreign corporation for the three-year period ending with the close of the taxable year preceding the declaration of such dividends was derived from sources within the United States; (7) a reasonable allowance for the exhaustion, wear and tear of property used in trade or business, including a reasonable allowance for obsolescence; (8) in the case of mines, oil and gas wells, other natural deposits and timber, a reasonable allowance for depletion and for depreciation of improvements according to the peculiar conditions in each case, such reasonable allowance in all cases to be made under rules and regulations to be prescribed by the Commissioner with the approval of the secretary.

Credits

Under the latest Federal Income tax provisions if the net income of the domestic corporation is $25,330 or less, a specific credit of $3,000 is allowed; but if the net income is more than $25,330, the tax imposed shall not exceed the tax which would be payable if the $3,000 credit were allowed, plus the amount of the net income in excess of $25,330. The latter qualification was intended to prevent a disproportionate exaction if the actual net income should exceed $25,330 by a narrow margin.

The Act also provides for a credit of the amount received as interest upon the obligations of the United States which is included in gross income, and for certain credits against net incomes of corporations organized under the so-called China Trade Act of 1922.

Accounting Period

The net income shall be computed upon the basis of the taxpayer's annual accounting period (fiscal year or calendar year, as the case may be) in accordance with the method of accounting regularly employed in keeping the books of such taxpayer; but if no such method of accounting has been so employed, or if the method employed does not

Form 1120
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
(Auditor's Stamp)

CORPORATION INCOME TAX RETURN
For Calendar Year 1929

File This Return with the Collector of Internal Revenue for Your District on or Before March 15, 1930

Page 1 of Return

File Code

Serial Number

(Cashier's Stamp)

PRINT PLAINLY CORPORATION'S NAME AND BUSINESS ADDRESS

STANDARD WOOD MANUFACTURING CO.
(Name)
120 LANE AVENUE
(Street and number)
ROCHESTER, NEW YORK
(Post office and State)

Cash Check M.O. Cert. of Ind. First Payment

$

Corked

As

Date of Incorporation January 1, 1925

Under the Laws of what State or Country New York

Kind of Business Manufacturer of Wooden Furniture — Is This a Consolidated Return of Two or More Corporations? No

Item no.	GROSS INCOME							
1.	Gross Sales from Trading or Manufacturing, Less Returns and Allowances					750	495	00
2.	Less Cost of Goods Sold:							
	(a) Inventory at beginning of year "C or M"		72	050	00			
	(b) Merchandise bought for sale							
	(c) Cost of manufacturing or producing goods (From Schedule A)		584	926	75			
	(d) Total of lines (a), (b), and (c)		656	976	75			
	(e) Less inventory at end of year "C or M"		90	840	50	566	136	25
3.	Gross Profit from Trading or Manufacturing (Item 1 minus Item 2)					184	358	75
4.	Gross Profit from Operations Other Than Trading or Manufacturing. (State source of income):							
	(a) Commissions Earned on Sale of Other Companies Products					9	475	00
	(b)							
	(c)							
5.	Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds					6	525	00
6.	Rents					3	600	00
7	Royalties					2	500	00
8.	Profit from Sale of Real Estate, Stocks, Bonds, and other Capital Assets (From Schedule D)					10	480	00
9.	Dividends on Stock of Domestic Corporations					3	200	00
10.	Other Income (including dividends received on stock of foreign corporations). (State nature of income):							
	(a) Dividends From Foreign Corporations							
	(b) Paris Manufacturing Company					5	800	00
	(c)							
11.	TOTAL INCOME IN ITEMS 2 TO 10						225	938 75
	DEDUCTIONS							
12.	Compensation of Officers (From Schedule C)					40	000	00
13.	Rent on Business Property					18	000	00
14.	Repairs (From Schedule D)					5	840	00
15.	Interest					8	200	00
16.	Taxes (From Schedule E)					12	450	00
17.	Losses (From Schedule F)					2	500	00
18.	Bad Debts (From Schedule G)					8	925	00
19.	Dividends (From Schedule H)					3	200	00
20.	Depreciation (resulting from exhaustion, wear and tear, or obsolescence) (From Schedule I)					22	250	00
21.	Depletion of Mines, Oil and Gas Wells, Timber, etc. (Submit schedule, see Instruction 21)							
22.	Other Deductions Not Reported Above. (Explain below, or on separate sheet):							
	(a) Salaries and wages. (Not included in Item 2, 13, or 14 above)					30	500	00
	(b) Net Loss for prior year. (Submit schedule)							
	(c) Advertising					10	735	00
	(d) Telephoning & Telegraphing					8	920	00
	(e) Stationery & Printing					3	875	00
*	(f) Miscellaneous					29	432	00
23.	TOTAL DEDUCTIONS IN ITEMS 12 TO 22						204	827 00
24.	NET INCOME (Item 11 minus Item 23)						21	111 75

COMPUTATION OF TAX

25.	Net Income (Item 24 above)		21	111	75	28.	Income Tax (11½% of Item 27)		1 992 29
26.	Less Credit of $3,000 (for a domestic corporation having a net income of less than $25,960)		3	000	00	29.	If net income of domestic corporation is less than $25,960, enter the amount over $25,000		
27	Balance (Item 25 minus Item 26)		18	111	75	30.	Total Tax (Item 28 plus Item 29)		1 992 29
31.	Less: Income Tax Paid at Source. (This credit can only be allowed to a nonresident foreign corporation)							X	
32.	Income Tax Paid to a Foreign Country or U. S. possession by a domestic corporation (see Inst. 27)							X	
33.	Balance of Tax (Item 30 minus Items 31 and 32)								1 992 29

An amended return must be marked "Amended" at top of return

Checks and drafts will be accepted only if payable at par

* Where accounts are numerous attach schedule.

Fig. 124: Corporation Income Tax Return—Federal (Page 1)

clearly reflect the income, the computation shall be made in accordance with such method as in the opinion of the Commissioner does clearly reflect the income. If the taxpayer's annual accounting period is other than a fiscal year as defined in the Act, or if the taxpayer has no annual accounting period or does not keep books, the net income shall be computed on the basis of the calendar year.

Corporation Federal Income Tax Return

Before starting preparation of the Federal Income Tax Return a trial balance should be drawn off from the books, on paper with at least twelve perpendicular columns to the right of the column provided for the account title, which may be used as a working sheet. The first two columns are for the asset and liability amounts and the next two for the profit and loss amounts. The other eight columns that follow may be used to provide for a segregation of the income and expense items in accordance with the manner in which these items should be reported on the tax return.

The Federal Income Tax Return for the calendar year 1929 of the Standard Wood Manufacturing Co., incorporated under the laws of the State of New York, engaged in the manufacture of wooden furniture is presented in Figs. 124 to 124c.

It should be noted that the form supplied by the Tax Authorities for the 1929 return, as presented in Fig. 124 was not changed to show the correct exemption figure in accordance with the amended tax provision. The exemption is stated on the blank as $25,360 instead of the correct figure of $25,330.

In Fig. 124 Page 1 of the return is reproduced. It will be noted that in lines 2 (a) and 2 (e) the inventory is designated "C or M" meaning priced at "Cost or Market, whichever is lower," the explanation that is given in answer to question 8, page 3 of the return, Fig. 124b.

Item 4 (a) gives the amount of Commissions Earned on Sales of other Companies' Products, and Item 10 (a) shows the amount of dividends received from a foreign corporation.

The schedules specified for items 2 (c), 8, 12, 14, and 16 to 20 inclusive will be found on Page 4 of the return, Fig. 124c.

For item 22, "Other Deductions," where the accounts are numerous a schedule should be attached. Lines 23 and 24 are self explanatory.

Items 25 to 33 cover computation of the tax which in

Page 2 of Return — SCHEDULE K—BALANCE SHEETS (See Instruction 43)

Items	Beginning of Taxable Year — Amount	Beginning of Taxable Year — Total	End of Taxable Year — Amount	End of Taxable Year — Total
ASSETS				
1. Cash		$ 31 248 00		$ 25 740 00
2. Notes receivable		12 350 00		39 580 00
3. Accounts receivable	$ 163 857 25		$ 210 500 00	
Less reserve for bad debts	7 250 00	156 607 25	8 925 00	201 575 00
4 Inventories:				
Raw materials	$ 22 350 00		$ 32 000 00	
Work in process	18 500 00		20 000 00	
Finished goods	27 400 00		34 140 50	
Supplies	3 400 00		4 700 00	
		72 050 00		90 840 50
5. Investments (nontaxable):				
Obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia	$ 10 000 00		$ 10 000 00	
Securities issued under the Federal Farm Loan Act, or under such Act as amended				
Obligations of the United States or its possessions	2 000 00	12 000 00	2 000 00	12 000 00
6. Other investments:				
Stocks of domestic corporations	$ 150 000 00		$ 103 616 50	
Bonds of domestic corporations				
Stocks and bonds of foreign corporations	90 000 00		90 000 00	
All other investments or loans	1 000 00	241 000 00	1 000 00	194 616 50
7 Deferred charges:				
Prepaid insurance	$ 3 900 00		$ 5 200 00	
Prepaid taxes				
All other (Interest Prepaid)	540 00	4 440 00	x	5 200 00
8. Capital assets:				
Land		65 000 00		50 000 00
Buildings	$ 136 000 00		$ 100 000 00	
Machinery and equipment	360 000 00		360 000 00	
Furniture and fixtures	10 000 00		10 000 00	
Delivery equipment	5 000 00		5 000 00	
	$ 511 000 00		$ 475 000 00	
Less reserves for depreciation	89 975 00	421 025 00	108 750 00	366 250 00
9. Patents		10 000 00		10 000 00
10. Good will		5 000 00		5 000 00
11. Other assets (describe fully): Officers				
Advances to Salesmen and	$ 4 875 00		$ 6 940 00	
Deposits	1 400 00		1 400 00	
Mortgage Receivable		6 275 00	15 000 00	23 340 00
12. TOTAL ASSETS		$ 1 036 995 25		$ 1 024 142 00
LIABILITIES				
13. Notes payable (less than one year)		$ 70 000 00		$ 63 500 00
14. Accounts payable		124 600 00		122 400 00
15. Bonds and notes (not secured by mortgage)				
16. Mortgages (including bonds and notes so secured)		262 500 00		257 500 00
17. Accrued expenses:				
Interest	$ 7 000 00		$ 6 080 00	
Taxes (New York State)	1 100 00		1 400 00	
All other	875 00	8 975 00	1 250 00	8 730 00
18. Other liabilities (describe fully):				
Due to Salesmen	15 320 00		14 775 00	
Deposits Payable	1 300 00	16 620 00	1 300 00	16 075 00
19. Capital stock:				
Preferred stock (less stock in treasury)	$ 300 000 00		$ 300 000 00	
Common stock (less stock in treasury)	** 90 000 00	390 000 00	** 100 000 00	400 000 00
20. Surplus	$ 148 652 25		$ * 136 300 25	
21 Undivided profits	15 648 00	* 164 300 25	19 636 75	155 937 00
22. TOTAL LIABILITIES		$ 1 036 995 25		$ 1 024 142 00

Remarks * Surplus at end of preceding year $ 164,300.25
Less Dividends per Schedule L 28,000.00
Surplus at beginning of New Year $ 136,300.25

** Increased in current year by stock dividend of $10,000.00. See Schedule L.

Fig. 124a: Federal Return Continued (Page 2)

this case, because the net income is less than $25,330, permits a credit of $3,000 before computing the tax at 11% or a total tax of $1,992.29.

In Fig. 124a, Page 2 of the return, the comparative Balance Sheets are shown for the beginning and the end of the taxable year. It will be noted that the difference between the amount of common stock outstanding at beginning and end of year, and the difference between the undivided profits at beginning of year and surplus at end of year are explained under "Remarks."

Page 3 of the return, Fig. 124b, is provided for the answering of certain questions. On this page also appears "Schedule L" which is the "Reconciliation of Net Income and Analysis of the Surplus Account."

It will be noted that to the amount of Net Income from item 24, page 1 of the return, is first added the non-taxable income such as the following, among others:

> Interest on obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia.
> Interest on obligations of the United States or its possessions.
> Dividends deductible under Section 23 (p) of the Revenue Act of 1928.

From the total thus obtained is deducted the sum of the unallowable deductions (line 13) such as:

(a) Donations, gratuities, and contributions.

(b) Income and profits taxes paid to the United States, and so much of such taxes paid to its possessions or foreign countries as are claimed as a credit in Item 32, page 1 of the return, etc.

The difference (line 7) represents "the net profit for the year, as shown by the books, before any adjustments are made therein."

To this figure is added the sum of the Surplus and Undivided Profits (line 8) as shown by the balance sheet at the end of the preceding taxable year, and any credits (line 9) to surplus during the year.

From the total thus obtained (line 10) is deducted the sum of the dividends paid (line 15) during the taxable year (whether paid in cash, stock or property) and any debits (line 16) to surplus during the year. The result is the total of Surplus and Undivided Profits (line 12) as shown by the balance sheet at the end of the taxable year.

Page 4 of the return, Fig. 124c, covers the schedules of information required to be furnished to support deductions

SCHEDULE L—RECONCILIATION OF NET INCOME AND ANALYSIS OF CHANGES IN SURPLUS — Page 3 of Return

1. Net income from Item 24, page 1 of the return			21	111	75		
2. Nontaxable income:							
(a) Interest on obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia				450	00		
(b) Interest on securities issued under the Federal Farm Loan Act, or under such Act as amended							
(c) Interest on obligations of the United States or its possessions				90	00		
(d) Dividends deductible under Section 23(p) of the Revenue Act of 1928			3	200	00		
(e) Proceeds of life insurance policies paid upon the death of the insured							
(f) Other items of nontaxable income (to be detailed):							
(1)							
(2)							
(3)							
3. Charges against reserve for bad debts, if Item 18, page 1 of return, is not an addition to a reserve							
4. Charges against reserves for contingencies, etc. (to be detailed):							
(a)							
(b)							
(c)							
5. Total of Lines 1 to 4, inclusive		$	24	851	75		
6. Total from Line 24			5	215	00		
7. Net profit for year, as shown by books, before any adjustments are made therein (Line 5 minus Line 6)		$	19	636	75		
8. Surplus and undivided profits as shown by balance sheet at close of preceding taxable year			164	300	25		
9. Other credits to surplus (to be detailed):							
(a)							
(b)							
(c)							
10. Total of Lines 7 to 9, inclusive		$	183	937	00		
11. Total from Line 17			28	000	00		
12. Surplus and undivided profits as shown by balance sheet at close of taxable year (Line 10 minus Line 11)		$	155	937	00		
13. Unallowable deductions:							
(a) Donations, gratuities, and contributions		$		1	200	00	
(b) Income and profits taxes paid to the United States, and so much of such taxes paid to its possessions or foreign countries as are charged to a credit in Item 32, page 1 of return. (Paid in 1929 for 1928 taxable income)				1	540	00	
(c) Federal taxes paid or tax-free covenant bonds							
(d) Special improvement taxes tending to increase the value of the property assessed					425	00	
(e) Furniture and fixtures, additions, or betterments treated as expenses on the books					750	00	
(f) Replacements and renewals							
(g) Insurance premiums paid on the life of any officer or employee where the corporation is directly or indirectly a beneficiary				1	300	00	
(h) Interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest upon which is wholly exempt from taxation							
(i) Additions to reserve for bad debts which are not included in Item 18, page 1 of return							
(j) Additions to reserves for contingencies, etc. (to be detailed):							
(1)							
(2)							
(3)							
(k) Other unallowable deductions (to be detailed):							
(1)							
(2)							
(3)							
14. Total of Line 13		$		5	215	00	
15. Dividends paid during the taxable year (state whether paid in cash, stock of the corporation, or other property):							
(a) Date paid Mch.28, 1929 Character Cash		$		18	000	00	
(b) Date paid Nov.10, 1929 Character Stock				10	000	00	
(c) Date paid Character							
(d) Date paid Character							
16. Other debits to surplus (to be detailed):							
(a)							
(b)							
(c)							
17. Total of Lines 15 and 16		$		28	000	00	

QUESTIONS

KIND OF BUSINESS

1. By means of the key letters given below, identify the corporation's main income-producing activity with one of the general classes, and follow this by a special description of the business sufficient to give the information called for under each general class.

A.—Agriculture and related industries, including fishing, logging, ice harvesting, etc., and also the leasing of such property. State the product or products. B.—Mining and quarrying, including gas and oil wells, and also the leasing of such property. State the product or products. C.—Manufacturing. State the product and also the material if not implied by the name of the product. D.—Construction—excavations, buildings, bridges, railroads, ships, etc., also equipping and installing same with systems, devices, or machinery, without their manufacture. State nature of structures built, materials used, or kind of installations. E1.—Transportation—rail, water, local, etc. State the kind and special product transported, if any. E2.—Public utilities—gas (natural, coal, or water); electric light or power (hydro or steam generated); heating (steam or hot water); telephone; waterworks or power. E3.—Storage—without trading or profit from sales—(elevators, warehouse, stockyards, etc.). State product stored. E4.—Leasing transportation or utilities. State kind of property. F.—Trading in goods bought and not produced by the trading concern. State manner of trade, whether wholesale, retail, or commission, and product handled. Sales with storage with profit primarily from sales. G.—Service—domestic, including hotels, restaurants, etc.; amusements; other professional, personal, or technical service. State the service. H.—Finance, including banking, real estate, insurance. I.—Concerns not falling in above classes (a) because of combining several of them with no predominant business, or (b) for other reasons.

2. Concerns whose business involves activity falling in two or more of the above general classes, where the *same product is* concerned, should report business as identified with but one of the above general classes; for example, concerns in A or B which also transport and market their own product exclusively or mainly, should still be identified with classes A or B; concerns in C (manufacturing) which own or control their source of material supply in A or B and which also transport, sell, or install their own product exclusively or mainly, should be identified with manufacturing; concerns in D may control or own the source of supply of materials used exclusively or mainly in their constructive work; concerns in E1 or E2 may own or control the source of their material or power; concerns in F may transport or store their own merchandise, but its production would identify them with A, B, or C.

3. Answers:

(a) General class (use key letter designation) C

(b) Main income-producing business (give specifically the information called for under each key letter, also whether acting as principal, or as agent on commission; state if inactive or in liquidation)
Manufacturer of Furniture -
acting as principal

AFFILIATIONS WITH OTHER CORPORATIONS
SEE INSTRUCTION 3d

4. Is this a consolidated return of two or more corporations? No
If so, procure from the Collector of Internal Revenue for your district Form 851, Affiliations Schedule, which shall be filled in, sworn to, and filed as a part of this return. See Article 12 (c) and (d), Regulations 75.

5. Did the corporation file a consolidated return for the pr - taxable y---? No —1928

PREDECESSOR BUSINESS

6. Did the corporation file a return under the same name for the preceding taxable year? Yes Was the corporation in any way an outgrowth, result, continuation, or reorganization of a business or businesses in existence during this or any prior year since December 31, 1917? No If answer is "yes," give name and address of each predecessor business, and the date of the change in entity

x

Upon such change were any asset values increased or decreased?
If the answer is "yes," closing balance sheets of old business and opening balance sheets of new business must be furnished.

BASIS OF RETURN

7. Is the return made on the basis of actual receipts and disbursements? No
If not, describe fully what other basis or method was used in computing net income

Accrual Basis

VALUATION OF INVENTORIES

8. State whether the inventories at the beginning and end of the taxable year were valued at cost, or cost or market, whichever is lower. If other basis was used, describe fully, state why used and the date inventory was last reconciled with stock.

Cost or Market, whichever is lower.

LIST OF ATTACHED SCHEDULES

9. Enter below a list of all schedules accompanying this return, giving for each a brief title and the schedule number. The name and address of the corporation should be placed on each separate schedule accompanying the return.

None

The corporation's books are in care of Firm
Located at 120 Lane Avenue, Rochester, N. Y.

Fig. 124b: Federal Return Continued (Page 3)

made on page 1 of the return with the exception of Schedule B—Profit from sale of Real Estate, Stock, Bonds, etc. While the net result of Schedule B is a profit, this is arrived at by making certain deductions which the government wishes to verify.

In Schedule A—Cost of Manufacturing or Producing Goods, should be shown all factory accounts exclusive of items included in lines 13, 14, 16 and 20, on page 1 of the return.

Taxation of Foreign Corporations

When a corporation is desirous of doing something or having something done for it without the limits of the state under which it is incorporated, it is necessary to face the question "Is it necessary to qualify as a foreign corporation to do business in the state or states where the transactions are to take place?" As a foreign corporation it has not the right enjoyed by the proprietor of a business who is a citizen of a state and is entitled to privileges and immunities of the citizens of the several states, pursuant to the Federal Constitution. All states take advantage of their power to prescribe the conditions, including the imposition of license taxes, compliance with which is a prerequisite to authorization to do business. If the foreign corporation, whether innocently or by design, transacts business without due compliance with such conditions, it may make itself liable to severe penalties. It is important therefore to have dependable guidance and competent legal advice as to the nature of the particular transaction, whether it constitutes "doing business" within the state and whether the corporation must be qualified as a corporation within the state in question. An exception to the general rule that a state has the right to forbid corporations of other states to do business within its boundaries unless conditions of entrance have been fulfilled is made in the case of transactions comprising "commerce with foreign nations and among the several states," the right to regulate which has been reserved exclusively in the Federal government by the Constitution of the United States.

Meaning of "Doing Business"

There is oftentimes considerable difficulty in determining whether or not the act or acts of a foreign corporation constitute doing business. The courts of the different states have taken conflicting positions in cases where the circumstances were identical or very similar. Transactions or a series of transactions in respect to which the issue of

Page 4 of Return — SCHEDULE A—COST OF MANUFACTURING OR PRODUCING GOODS (See Instruction 2)

Items	Amount	Items	Amount (Enter as Item 20)
Salaries and wages	$ 2005 10		$
Material and supplies	3841 16		
	$ 5846 26		

* The details showing all factory operating accounts exclusive of items in lines 13,14,16 and 20 should be prepared on a separate schedule and attached as "Schedule A".

SCHEDULE B—PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS, ETC. (See Instruction 8)

1. Kind of Property	2. Date Acquired	3. Amount Received	4. Depreciation Allowable Since Acquisition	5. Cost or Value as of March 1, 1913, Whichever Greater	6. Subsequent Improvements	7. Net Profit (Enter as Item 6)
500 Shares Stan. Oil N.J.	1928	$ 32657 50		$ 32212 50	$	$ 445 00
100 Shares Columbia Carbon	1929	19625 00		14171 00		5454 00
Apartment House - Brick	1925	42081 00	$ 2500 00	40000 00		4581 00
* Cost of Building $25000.00						10480 00
Cost of Land 15000.00						

State how property was acquired

SCHEDULE C—COMPENSATION OF OFFICERS (See Instruction 12)

1. Name of Officer	2. Official Title	3. Time Devoted to Business	Shares of Stock Owned 4. Common	Shares of Stock Owned 5. Preferred	6. Amount of Compensation (Enter as Item 12)
John Aber	President	Entire	10000	X	$ 25000 00
Albert Frank	Vice Pres.	Entire	5000	X	10000 00
William Henderson	Secy. and Treasurer	Entire	1000	X	5000 00
					40000 00

SCHEDULE D—COST OF REPAIRS (See Instruction 14)

1. Items	2. Amount (Enter as Item 14)
Salaries and wages	$ 3240 00
Materials & Supplies	2600 00
	5840 00

SCHEDULE E—TAXES PAID (See Instruction 16)

1. Items	2. Amount (Enter as Item 16)
City Tax on Real Estate	$ 11000 00
Miscellaneous City Taxes, Water, etc.	350 00
New York State Franchise Tax	1100 00
	12450 00

SCHEDULE F—EXPLANATION OF LOSSES BY FIRE, STORM, ETC. (See Instruction 17)

1. Kind of Property	2. Date Acquired	3. Cost or Value as of March 1, 1913, Whichever Greater	4. Subsequent Improvements	5. Depreciation Allowable Since Acquisition	6. Insurance and Salvage Value	7. Deductible Loss (Enter as Item 17)
Warehouse Frame	1927	a) $ 10500 00	b) $ 500 00	a) $ 945 00 b) 30 00	$ 7525 00	$ 2500 00

State how property was acquired

SCHEDULE G—BAD DEBTS (See Instruction 18)

1. Year	2. Sales or Amount	3. Bad Debts
1925 Excludes Cash Sales	$ 375840 00	$ 1247 00
1926 " " "	422975 00	2480 00
1927 " " "	528650 00	2010 00
1928 " " "	672835 00	7250 00
1929 " " "	725400 00	8925 00

SCHEDULE H—DIVIDENDS DEDUCTIBLE (See Instruction 19)

1. Name of Corporation	Amount of Dividends 2. Domestic	3. Foreign
Standard Oil of N. J.	$ 1800 00	$ X
Columbia Carbon	400 00	X
Brown Furniture Co.	1000 00	X
	3200 00	

SCHEDULE I—EXPLANATION OF DEDUCTION FOR DEPRECIATION (See Instruction 20)

1. Kind of Property (If buildings, state material of which constructed)	2. Date Acquired	3. Age When Acquired	4. Probable Life After Acquirement	5. Cost or Value as of March 1, 1913, Whichever Greater (Exclusive of Land)	Amount of Depreciation Charged Off 6. Previous years	7. This year
Buildings-Brick & Steel	1925	New	50 years	100000 00	8000 00	2000 00
Machinery & Plant Equipment	1925	New	20 years	360000 00	72000 00	18000 00
Furniture & Fixtures-Office	1925	New	10 years	10000 00	4000 00	1000 00
Delivery Auto Truck	1927	New	4 years	5000 00	2500 00	1250 00
				475000 00	86500 00	22250 00

AFFIDAVIT

We, the undersigned, president and treasurer of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return made in good faith, for the taxable year stated, pursuant to the Revenue Act of 1928 and the Regulations issued thereunder.

Sworn to and subscribed before me this ..... day of ....., 1930

..... President.

NOTARIAL SEAL

..... (Signature of officer administering oath) ..... (Title)

CORPORATE SEAL

..... Treasurer

Attach a separate sheet if any of the above schedules do not provide sufficient space

Fig. 124c: Federal Return Concluded (Page 4)

doing business has been raised embrace sales of goods consigned to a resident or person located in the state, orders taken by a solicitor in the state, the establishment of a branch office or show room, installing machinery or other articles, repairing machinery or other articles, keeping goods in a local warehouse, and so forth. Occasional or isolated transactions are usually held not to constitute doing business. There must be a continuation of acts or a course of conduct. Such acts must pertain to the commercial business and not to corporate acts of a formal nature. Cases do not always agree, however, as to what constitutes such corporate act nor do they agree as to whether the making of a contract constitutes doing business. In a majority of the states it is permissible to solicit orders through salesmen provided the orders are forwarded for acceptance and shipment at a city in another state. However, if deliveries are made from a local stock such transactions may constitute doing business. From the foregoing it will be evident that such questions are difficult of solution and should be submitted to legal counsel for advice.

Procedure of Qualification

The provisions of the state laws regulating qualification by foreign corporations to do business must be faithfully complied with. The procedures vary in different states but in most instances a certified copy of the certificate of incorporation must be filed and a resident agent appointed. Entrance fees and periodical taxes also vary greatly and reference must be had to the provisions of the statute in the particular state to ascertain the requirements as to admission and the exactions imposed.

Penalties for Non-Compliance

The importance of ascertaining whether or not a particular act or series of acts may be construed as doing business in a particular state is made apparent by an examination of the provisions inflicting penalties for violation. Frequently the guilty corporation is forbidden the use of the courts of the state to sue in its behalf and in many instances large fines are imposed. In some states the officers of the company are also made subject to fine and imprisonment.

Taxes Upon Corporate Property

In addition to the special taxes laid upon the corporation because of its corporate form, each corporation is subject to the same taxes on real estate and personal property as those imposed upon an individual property owner. The

FORM 3 IT 6-13-25-250,000 (3-1924) Page 1

EVERY CORPORATION INCORPORATED PRIOR TO NOV. 1, 1929, MUST REPORT

(29) Every corporation incorporated prior to July 1, 1929, must make this report. (See EXCEPTION, page 4, under Special Instructions)

FRANCHISE TAX ON BUSINESS CORPORATIONS

TO DEPARTMENT OF TAXATION AND FINANCE, ALBANY, N.Y.

This report is DUE JULY 1, 1929. Corporations filing reports with the United States Treasury Department after June 1, 1929, for a fiscal year ending before July 1, 1929, must file this report within thirty days after such filing and give date of filing federal report.
The report must cover the conditions and the entire net income for the corporation's last fiscal year ending on or before June 30, 1929.

NEW CORPORATIONS see special instructions on page four (4).

DO NOT WRITE IN THIS SPACE — CS, T. A., N. Y. A., %, B, T, D, C

STANDARD WOOD MANUFACTURING CO. Inc
120 LANE AVENUE
ROCHESTER, NEW YORK

DO NOT WRITE IN THIS SPACE — T. A., N. Y. A., %, 8, 9, 10, F. Y. I., S. N. I., B, D, T

Standard Wood Manufacturing Co.
(Name of corporation) (Exact corporate title)

120 Lane Avenue, Rochester, New York
(Mail address) (Full details for delivery of blanks and notices of assessment must appear above)

(1) Organized Jan. 1, 1925 under the Laws of N.Y. (2) Began business in New York Jan. 1, 1925

(3) If not incorporated under the laws of New York, has it been legally authorized to do business in New York State? X

(4) Authorized capital stock, $ 500,000.00 (5) Amount of average indebtedness for year, $ 455,450.00 (Exclusive of capital stock)

Answers to item 6 below must show issued and subscribed stock as of June 30, 1929.

(6)	Number of shares	Par value per share	Total par value	(6-a) Dividends paid during fiscal or calendar year
Common	18000	$ 5.00	$ 90,000.00	$ 7,000.00
Preferred	3000	$ 100.00	$ 300,000.00	$ 18,000.00
Non par value	none	Am't paid in on same	$ none	$ none

Any capital stock issued or subscribed after June 30, 1929 and prior to November 1, 1929 must be reported to the Department of Taxation and Finance, Corporation Bureau, within 30 days after November 1st, 1929.

(7) If your fiscal year has been changed since July 1, 1927, how? No

(8) ENTIRE NET INCOME FOR THE YEAR ENDING DECEMBER 31, 1928, or the FISCAL YEAR (PERIOD) COMMENCING _____ AND ENDING _____, as shown by its report to the UNITED STATES TREASURY DEPARTMENT $ 24,450.00

(Note: Above answer must agree with report to Federal Government for a period ending between July 1, 1928 and June 30, 1929).

(8-a) State entire amount of salary and other compensation paid to all appointed or elected officers and to all stockholders owning in excess of 5% of issued stock ..... $ 25,000.00

(9) Dividends received from corporations, not included in (8) ..... $ 2,850.00

(10) State amount of interest received from Federal, state, municipal, or other obligations, not included in item (8) $ none

(11) *TOTAL GROSS INCOME* reported at item 11 on Federal Income Tax Return for the above period.. $ 189,654.40

(11-a) DEDUCTIONS (as shown on federal report)

(a) Compensation of officers	$ 25,000.00	(f) Losses by fire, storm	$ none
(b) Rent on business property	$ 18,000.00	(g) Bad debts	$ 7,250.00
(c) Repairs	$ 3,625.00	(h) Depreciation	$ 20,100.00
(d) Interest	$ 6,750.00	(i) Depletion	$ none
* (e) Taxes (Item 16 Fed. Rpt.).	$ 10,624.50		

(k) Other deductions not shown above must be shown in detail ON SHEET ATTACHED..... $ 73,854.90

TOTAL DEDUCTIONS shown above ..... $ 165,204.40

Item 11 above less item 11-a above..... $ 24,450.00

(12) If the entire net income as first returned was changed by the Federal Government, state the amount of such entire net income as finally determined for the year ending ____ 1919, $ ____ | 1922, $ ____
(If no change made insert the word "None")
INSERT MONTH AND DAY
1920, $ ____ | 1924, $ ____
1921, $ ____ | 1925, $ none
1922, $ ____ | 1926, $ none

(13) If a corporation is not organized under the laws of any state within the United States it should return its entire net income, wherever earned, $ none

(14) If the amount reported in (8) is inaccurate, state the amount claimed to be correct, $ X

(15) Nature of business and how transacted Manufacturer of Furniture

(16) Place, street and number where business is conducted 120 Lane Avenue, Rochester, New York

(17) State the city or town, street number and state where the company maintained any permanent store, warehouse, factory or other place of continuous business outside the State of New York during the year 48 Mayo Street, Boston, Mass.

(18) Any corporation EXCEPT ONE HAVING STOCK WITHOUT PAR VALUE, may omit the segregation of assets on page 2 only by signing the following consent:

I AM AUTHORIZED by the Board of Directors of this corporation to consent and I do hereby consent that said corporation be taxed upon its entire net income at 4½ per cent or as otherwise provided by law.

Do not sign consent unless taxable by the State of New York on entire income or entire issued capital stock.

THIS REPORT MUST BE SWORN TO ON PAGE FOUR

ALL QUESTIONS ON THIS BLANK MUST BE ANSWERED

* Attach Schedule making up this total.

Fig. 125: Corporation Income Tax Return—N. Y. State (Page 1)

rates and procedure for the assessing and collecting of property taxes vary in the different jurisdictions. The officer or executive responsible for the supervision of the corporation's property taxes must be thoroughly familiar with the state law and the local assessment and collection machinery of the state and local unit where the property is situated. The tax executive must be familiar with the proportions of actual value at which property is assessed and be prepared in case assessments are unjust to institute proceedings for the revision of such assessments. If intangibles are involved it is important to know whether the particular property is subject to taxation and what is the proper basis. In some instances the question of jurisdiction is important as where intangibles are taxed at the place where the corporation maintains its principal office.

Taxation of Corporations By States

Special taxes are laid upon corporations as such by all states. Such taxes include both domestic and foreign corporations. Organization taxes are imposed at the time of incorporation of companies in the various states, and entrance fees must be paid by foreign corporations seeking to do business in the state as a condition of qualification to do business.

Corporations, domestic and foreign, are also subject to the payment of annual taxes which vary considerably in respect to character and base. For example, taxes levied on the capital stock are sometimes based on the authorized capital stock, sometimes on the issued capital stock, in some instances on the *actual* as distinguished from the *nominal* value of the stock authorized or issued; and in a few states the value of the property subject to local taxes is authorized to be deducted from the value of the capital stock to arrive at the taxable base (termed "corporate excess tax"). The language of the statutes of the different states is confusing inasmuch as conflicting designations are employed with reference to the same character of tax so that a careful study of the provisions must be made to determine the true nature of the imposition irrespective of the statutory terminology.

Taxation of Domestic Corporations

The type of annual state tax imposed by the majority of states on domestic corporations is the corporation franchise tax which is a tax on the right of the corporation to do business in corporate form. As in the case of the tax base, so the rates of taxation specified by the laws of the different states vary greatly.

Page 2

(19) Does this corporation own a majority of the stock of another or other corporations? No Give name of each and amount held
X

(20) Is a majority of the stock of this corporation owned by another corporation? No If so, by what other? X

(21) Did this corporation file a consolidated report with the United States Treasury Department? No

(21-a) If so, state amount of consolidated net income, $ None

(22) Were its income and assets included in the consolidated report of another corporation? No
If so, name of corporation reporting the consolidated net income X
and amount of net income so reported, $ X

(23) Give the names and net income or loss attributable to each corporation, including the reporting corporation, included in the consolidated report, and specify whether gain or loss None

(24) Has this corporation since January 1, 1917, either directly or indirectly, acquired by merger, consolidation or purchase, the major part of the assets or the franchise of any other corporation or corporations? No
Has it merged or consolidated any other corporation or corporations? No
If so, give name of each corporation and date of acquisition, merger or consolidation X
X

(25) Has the entire net income of any corporation which has been acquired by, or merged or consolidated with this company been changed by the Federal Government, and not heretofore reported to the State Tax Department? X (Answer "Yes" or "No")
If changed, reduce such changes to affidavit form and file with this report.

SEGREGATION OF ASSETS NOT INCLUDING THOSE OF ANY OTHER CORPORATION
(This segregation must be based on same fiscal or calendar year as report)

Read: The following segregations MUST be made by all corporations having stock without par value and all corporations which have not signed consent (18)

TOTAL SEGREGATED ASSETS WHEREVER LOCATED

(26-a) Average total monthly value for the fiscal or calendar year of bills and accounts receivable arising from personal property sold by the corporation from merchandise manufactured by it within and without this state	$	174 500 00
(26-b) Average total monthly value for the fiscal or calendar year of bills and accounts receivable arising from the purchase, or sale of, or trading in, personal property, or from services performed by the corporation, its officers or agents, excluding those arising in any way from advances or loans	$	12 480 00
(26-c) ‡Average monthly value of all its real property wherever located (actual value)	$	175 000 00
(26-d) ‡Average monthly actual value of all machinery and fixtures wherever located	$	267 000 00
(26-e) ‡Average monthly actual value of all other tangible personal property wherever located	$	85 500 00
(26-f) ‡Average total *actual* value of shares of stocks of other corporations owned by this corporation (notes, bonds, cash and evidences of debt must not be included). (Note: List of shares must be made on separate sheet and show corporate name, number of shares held, par value per share, actual value.)	$	220 000 00
Total	$	932 480 00

(26-g) Does the segregation above made include assets of any subsidiary or other corporation? No

ADDITIONAL INFORMATION—To be used to determine fees under § 181 of Tax Law and one mill tax.

(27-a) Average monthly bank and cash balance during the year	$	33 250 00
(27-b) Average value of bills and accounts receivable during the year arising from advances or loans and not included above	$	5 350 00
(27-c) Average value of bonds, loans on call and other financial securities wherever held, used or employed during the year (not including shares of stock)	$	12 000 00

ASSETS SEGREGATED TO NEW YORK STATE ONLY

(28-a) Average monthly value of bills and accounts receivable arising from personal property sold by the corporation from merchandise manufactured by it within this State	$	139 600 00
(28-b) Average monthly value of bills and accounts receivable arising from personal property owned by the corporation and not manufactured by it within this State but sold by it or its agents and located within the State at the time of the receipt of the order	$	4 250 00
(28-c) Average monthly value of bills and accounts receivable arising from the purchase or sale of, or trading in, goods, wares or merchandise not located at any place at which the corporation conducted a permanent or continuous business within the State and where the bills and accounts receivable arose from orders received or accepted by any officer or agent, or at any place of business, in this State	$	4 400 00
(28-d) Average monthly value of bills and accounts receivable arising from services performed by any officer, agent or representative of the corporation connected with, sent from, or reporting, either directly or indirectly, to any officer located in this State or at any office located, owned, rented or occupied in this State	$	none
(28-e) ‡Average monthly value of its real property within this State as detailed in this report (actual value)	$	175 000 00
(28-f) ‡Average monthly actual value of all machinery and fixtures in New York State	$	267 000 00
(28-g) ‡Average monthly actual value of all other tangible personal property in New York State	$	55 800 00
(28-h) ‡Average total actual value of shares of stocks of other corporations owned by it and allocated to this State by rule below	$	55 000 00
Total	$	711 050 00

ADDITIONAL INFORMATION—To be used to determine fees under § 181 of Tax Law and one mill tax.

(29-a) Average monthly bank and cash balance in New York State during the year	$	28 745 00
(29-b) *Average value of all bills and accounts receivable in New York State during the year	$	2 400 00
(29-c) Average value of bonds, loans on call and other financial securities held, used or employed in New York during the year (not including shares of stock)	$	12 000 00

* All bills and accounts receivable due for goods located in New York State at the time of sale or receivable by the corporation as an office within New York State and not already included in (a), (b), (c), and (d), in assets segregated to New York State, must be included in this item.
‡ Real property and tangible personal property shall be taken at its actual value where located.
‡ The value of shares of stock of another corporation owned by a corporation liable hereunder shall for purposes of allocation of assets to apportioned in and out of the State in accordance with the value of the physical property in and out of the State representing such share stock.

Fig. 125a: Corporation Income Tax Return—N. Y. State (Page 2)

For the convenience of the reader a table of organization and annual taxes has been prepared in this Section showing the actual amount of initial and annual taxes collectible in each state calculated in respect to those amounts, whether of authorized capital, issued capital, value of capital stock or corporate excess, constituting the tax base in that particular state most frequently employed in corporate enterprises. Of course the amount of actual tax base for a particular corporation will frequently not coincide with the tax base shown in this table so that it will be necessary to perform the calculation by referring to the covering statutory provisions which are presented in as close juxtaposition to the respective tabular calculations as possible.

It should be noted that a tax is levied upon corporate income either by way of franchise tax or by way of an imposition in addition to the franchise tax. For the convenience of the reader the provisions in the statutes of states imposing income taxes have been summarized in this Section.

New York State Franchise Tax

Unfortunately, at the time of going to press the 1930 New York State Franchise Return blanks were not available so the return of the Standard Wood Manufacturing Co., Inc. reproduced herewith is for the calendar year 1928 and can not be reconciled with the Federal Tax Return of that company for the year 1929 which has been previously discussed.

Therefore, where a reference is made to an item or line of the Federal Tax Return it should be understood that when it is stated that the amount in the State Return should agree with that in the Federal it is meant that this occurs only where the year reported in each return is the same.

New York State serves as an illustration of the different methods employed in the calculation of the franchise (privilege of doing business) tax. There are four bases of tax as follows:

1. A minimum tax of ten dollars ($10.00).
2. Not less than 4½% on its entire net income.
3. Not less than one mill upon each dollar of its issued capital stock at its face value.
4. Not less than would be produced by applying a rate of two per centum to a base consisting of the entire net income plus salaries and other compensation paid to all elected or appointed officers, and to any stockholder owning in excess of five per centum of the capital stock of the corporation, excepting dividends, and after deducting from the base six thousand dollars, and any deficit for the reported year.

(30) OFFICERS SCHEDULE FOR THE FISCAL OR CALENDAR YEAR COVERED BY THIS REPORT — Page 3

Name and Residence	Title	Salary	All other Compensation	Number Shares Held: Preferred	Number Shares Held: Common
John Aber 26 Baltic St., Rochester N.Y.	Pres.	15,000.00	None	None	8000
Albert Frank 124 Buffalo Ave., Rochester N.Y.	Vice Pres.	5,000.00	None	None	4000
William Henderson 1268 Broadway, Rochester N.Y.	Secy.-Treas.	5,000.00	None	None	1000

MUST BE ANSWERED

Are any of the above named officers also officers in any other corporation? No
If so, add rider, showing in what company, title, and salary or other compensation received from such other companies during fiscal or calendar year covered by this report.

(31) Was any stock owned during the period of this report by an elected or appointed officer, transferred or assigned to any relative or agent? NO If so, by whom and to whom was such stock assigned and what relationship to assignee?

1. From -- -- To -- --
2. " -- -- " -- --
3. " -- -- " -- --

(31-a) 1. In what amount $ -- -- Number of shares -- --
2. " " " $ -- -- " " " -- --
3. " " " $ -- -- " " " -- --

(32) Schedule for stockholders (not including any in officers' schedule) owning more than five percent of issued capital stock.

Name in full	Total compensation of every character received from this corporation
-- --	$ -- --
-- --	-- --
-- --	-- --
-- --	-- --

(33) THE FOLLOWING INFORMATION REQUIRED BASED ON FISCAL OR CALENDAR YEAR

(A) Gross sales from trading or manufacturing, less returns and allowances ..... $ 655,185.20
(B) Gross profit from trading and manufacturing ..... $ 173,425.80
(C) Gross profit from other than trading and manufacturing ..... $ 16,228.60
(D) Entire assets $1,036,995.25
(E) Entire liabilities, excluding capital stock and surplus ..... $ 482,695.00
(F) Net worth as shown by balance sheet at end of calendar or fiscal year ..... $ 554,300.25
(G) Number of people employed, average 182
(H) What was the total par value of all: (1) Federal bonds $ 2,000.00 ; (2) Federal Farm Loans $ None ; (3) State and Municipal Bonds $ 10,000.00 ; (4) All other obligations shown in your return to the Federal Government and exempt from Federal Income Tax $ None
(If none are held, insert the word "None.")

(34) Average price at which this corporation's stocks sold during the year

	High	Low
Common	$ 15.00	$ 12.00
Preferred	$140.00	$110.00
No par	None	None

(35) How many shares of the corporation's stock were transferred on its books during the period covered by this report? 4,200

MUST BE ANSWERED

(36) Does this corporation use or occupy any part of the real property of another corporation which it owns or controls, either directly or indirectly? No (Answer "Yes" or "No")
(37) If the answer is "Yes" name the corporation holding such real estate
x
(38) Does this company use or occupy any part of the real property of another corporation which either directly or indirectly owns or holds a controlling interest in this corporation? No (Answer "Yes" or "No")
(39) If the answer is "Yes" name the corporation holding such real estate
x

SPECIAL INSTRUCTIONS TO NEW CORPORATIONS

The Commission will permit corporations subject to taxation under Article 9-a of the tax law, organized between January 1st and July 1st, 1929, to omit filing report on form 3-IT due July 1st, 1929, conditioned that such corporations file a report on form 60 C. T. during the month of November, 1929.

Corporations organized between June 30th and November 1st, 1929 will be required to file a report on form 60 C. T.

This form will be mailed about November 1st, and the report must be filed not later than November 30th, 1928.

Fig. 125b: Corporation Income Tax Return—N. Y. State (Page 3)

Whichever would produce the largest tax is the basis used by the State Tax Commission.

There is no space on the return for computation of the tax because the Commission computes the tax.

Most of the data from which the State return is prepared will be found in the Federal income tax return and the remainder in the working sheets, prepared by a corporation.

It should be noted that while all income figures are for the calendar year 1928, the return provides that the status of stock of the company must be shown as at June 30, 1929. The law further requires that any capital stock issued or subscribed after June 30th of the year in which the report is made (in this case 1929) and November 1st of that year must be reported to the New York State Department of Taxation and Finance, Bureau of Corporations, within 30 days after November 1st of the reporting year.

The entire Net Income for the year (line 8 of State, line 24 of Federal) is the starting point of the report. (Fig. 125)

Compensation of officers and of all stockholders owning in excess of 5% of issued stock, line 8a, should agree with line 12 of the Federal as should item 30 with Schedule C Federal unless one or more stockholders not officers were compensated.

Dividends received from corporations lines 9 of the State and Federal returns agree.

If an amount were reported on line 10 of the state return for interest received from Federal, state, municipal, or other obligations it should agree with line 2(a) Schedule L of the Federal return, where the deduction is made in accordance with the Federal income tax law. These items of interest are not deductible from the State return.

Item 11 must state the Total Income as shown on line 11 of the Federal tax return.

Item 11a Deductions should agree with line 23 of the Federal return. It will be noted however that on line 19 of the Federal return the amount of Dividends received from domestic corporations reported on line 9 has been included in the total of line 23, hence the reason for showing it separately on the State return.

The answers to lines 12, 13, 14, 15, 16 and 17 are obvious.

Inasmuch as the company maintained a place of business outside the state as well as within the state the consent line 18 should not be signed.

Further the assets should be segregated between those "within" and "without" the state because whether the State Tax Commission use Basis 2, 3 or 4, the stock or net income will be taxed for that proportion used or arising within the state.

Page 4

(40) DISTRIBUTION SCHEDULE (Must be completed)

Do not confuse the political subdivisions "incorporated village" and "town."

Names of hamlets or postoffices other than incorporated villages are not wanted.

Schedule of Real and Tangible Personal Property in New York State by Cities, Towns and Incorporated Villages

City of	County of	Personal actual value	Real estate actual value	Real estate assessed value
Rochester	Monroe	$ 368,550 00	193,000 00	150,000 00

Town of	Incorporated village of	County of			

(If more space is needed add a paster)

PENALTIES

Any OFFICER making a fraudulent report becomes personally liable to a FINE OF $1000.

The Law provides a PENALTY of not more than $5000 for neglect or refusal to file this report.

FOR FAILING, THROUGH NEGLIGENCE, TO PAY TAX WHEN DUE:

Ten per cent of the tax due and unpaid plus interest at the rate of 1 per cent per month during the period in which it remains unpaid.

INFORMATION

The word "average" wherever it appears in this report has its plain, ordinary significance; neither the highest amount nor the lowest, but the mean.

In making report every space must be used except where the blank states that the spaces are not to be filled. Wherever no figures are to be inserted the word "none" should be inserted.

If there is no net income to be returned in answer to paragraph (8) insert the word "deficit" and state the amount thereof.

ALL CORPORATIONS MUST MAKE THIS REPORT EXCEPT THE FOLLOWING:

(1) Real estate corporations wholly engaged in the purchase and sale of and holding title to real estate for themselves (this does not include so-called real estate companies having leasehold interests only, except as specified in subd. 2 below, or real estate agents or brokers).

(2) Corporations engaged in the business of subleasing real property held under a leasehold for a term of twenty years or more, by the terms of which the taxes on the real property are paid by the lessee corporation as part of the consideration for the leasehold.

(3) Corporations whose sole business consists of holding stocks of other corporations for the purpose of controlling the management and affairs of such other corporations, except such as are specifically subject to report under the provisions of subdivision nine of section two hundred and eleven of the tax law.

(4) Farmers', fruit growers', and other like agricultural corporations organized and operated on a co-operative basis for the purposes expressed in and as provided under the co-operative corporations law of the state of New York.

(5) Transportation, transmission, heating, lighting and power corporations, insurance companies, savings banks and other corporations taxable under sections 184 to 189 of the tax law, inclusive.

(6) Corporations taxable under Articles 9-B and 9-C of the tax law.

Simply to write "out of business," "never began business," "dead," et ceters, is not a sufficient compliance to relieve from the penal provisions of the statute.

THIS TAX IS DUE AND PAYABLE ON OR BEFORE JANUARY 1, 1930 OR WITHIN 30 DAYS OF BILLING DATE IF BILLED AFTER DECEMBER 3, 1929. DO NOT SEND CHECK WITH REPORT.

AFFIDAVIT OF PRESIDENT, VICE-PRESIDENT, SECRETARY OR TREASURER

STATE OF NEW YORK, }
County of _____ } ss.:

On this _____ day of _____ A. D. 192____, personally appeared before me, a Notary Public in and for the County of _____, of the above named company who, being duly sworn according to law, did depose and say that the foregoing report is just, true and correct and that it includes a true statement of the annual net income of said company for the year.

_____

_____ (Official title)

Sworn to before me the day and year aforesaid.

_____ Notary Public

Fig. 125c: Corporation Income Tax Return—N. Y. State (Page 4)

Lines 19 to 25 both inclusive page 2 of the return Fig. 125a do not affect the reporting company but must be answered.

To determine the average total monthly values of "Total Segregated Assets Wherever Located," items 26a to 26f inclusive take the respective totals from the monthly trial balances and divide the respective sums by the total number of months composing the sums.

The same rule applies in determining the answers to 27a, b, and c.

The same rule applies in determining the assets segregated to New York State only 28a to h inclusive and 29a to c inclusive.

It will be noted that in order to determine readily the answers to questions 28 & 29, the company's accounts should be so arranged as to permit a proper segregation of the information requested.

On page 3 of the return Fig. 125b the schedule shown under item 30 should agree with Schedule C of the Federal return for the particular year. It will be noted, however, that the state requires the names of all other corporations in which an officer of the reporting corporation may hold office.

Items 31, 31a and 32 are not shown on the Federal Return.

Item 33(a) Gross sales from trading or manufacturing, less returns and allowances corresponds to item 1 of the Federal return.

Item 33(B) "Gross profit from trading or manufacturing" corresponds to item 3 of the Federal return.

Item 33(C) "Gross profit from other than trading or manufacturing" corresponds to item 4 of the Federal return.

Item 33(D) "Entire Assets" corresponds to the total assets at beginning of year in Schedule K of the 1929 Federal return.

Item 33(E) "Entire liabilities, excluding capital stock and surplus" may be obtained by adding the liabilities shown in the first column schedule K of the 1929 Federal return.

Items 33(G), 34 & 35 are not found on the Federal return; neither are items 36, 37, 38, 39 and 40.

A careful study of the law of a particular state should, of course, always be made wherever State Tax Returns are prepared and filed.

STATE INCOME TAXES

Rates, Filing Offices and Dates Returns are Due
(as of Jan. 1, 1930)

Arkansas

Rate: 2% of net income.
Filed in office of Commissioner at Little Rock on or before May 15th.

California

Rate: 4% of net income.
Filed with Tax Commissioner on or before March 15, or 2 months and 15 days after close of fiscal year.

Connecticut

Rate: 2% of net income—Minimum $10.00.
Filed with Tax Commissioner on or before April 1, or 60 days after close of fiscal year, if fiscal year ends between Jan. 31 and April 1.

Georgia

Rate: One-third of the Federal Income Tax on net income.
Filed with Tax Commissioner on or before March 15.

Hawaii

Rate: 5% of net income or profit.
Filed with Assessor of Tax Division between Jan. 1 and Jan. 31.

Massachusetts

Rate: 2½% of net income.
Filed with Tax Commissioner on or before March 1.

Mississippi

Rate: On net income as follows: 2½% on first $2000; 3½% on next $3000 or part thereof; 4½% on next $10,000; 5½% on all in excess of $15,000.
Filed with Tax Commissioner. Due March 15, (if calendar year) or due 15th of 3rd month following close of fiscal year.

Missouri

Rate: 1% on net income.
Filed with Tax Assessor. Due March 15 (calendar year) or 74 days after end of fiscal year.

Montana

Rate: 1% of net income.
Filed with State Board of Equalization March 1.

New York

(Franchise Tax based on net income). *Rate*: 4½% of net income. Filed with Tax Commissioners. Due July 1, or 30 days after filing U. S. report for fiscal or calendar year preceding July 1.

North Carolina

Rate: 4½% of net income. Filed with Tax Commissioner by March 15, or 75 days after close of fiscal year.

North Dakota

Rate: 3% of net income. Filed with Tax Commissioner at Bismarck, North Dakota. Due March 15 or 15th day of 3rd month following close of fiscal year.

Philippine Islands

Rate: 3% of net income. Filed with collector or treasurer of province in which is located the corporation's principal office. Due March 1, or 60 days after close of fiscal year.

Porto Rico

Rate: 12½% of net income. Filed with Treasurer of Porto Rico. Due March 15, or 15th day of 3rd month following close of fiscal year.

South Carolina

Rate: 4% of net income. Filed with Tax Commissioner. Due 15th of 3rd month after preceding income year.

Tennessee

Rate: 5% of net income. Filed with Commisisoner of Finance and Taxation. Due March 15.

Virginia

Rate: 3% of net income. Filed with Department of Taxation. Due April 15 or 15th day of 4th month following close of fiscal year.

Wisconsin

Rates: On average net income as follows: 2% on first $1000; 2½% on second $1000; 3% on third $1000; 3½% on fourth $1000; 4% on fifth $1000; 5% on sixth $1000; 6% on seventh $1000; 6% on all in excess of $7000. Filed with Tax Commissioner. Due March 15, or 75 days after close of fiscal year, if that does not end on Dec. 31st.

DOMESTIC CORPORATIONS

Dates When Tax and Other Reports Are Due

(The dates show the last day the report or tax is due. Table compiled as of Jan. 1, 1930)

Alabama

Annual Franchise Tax: February 1
Ad Valorem Tax: December 31

Alaska

Annual Report: 60 days after annual meeting
Annual Franchise Tax: January 1

Arizona

Annual Franchise Tax: June 30

Arkansas

Annual Report: February 15 or August 15
Annual Franchise Tax: Report due March 1
Tax due August 10
Income Tax Return: May 15

California

Income Tax Return: 2 months and 15 days after close of fiscal year

Colorado

Annual Report: 60 days after January 1
Annual Franchise Tax: May 1

Connecticut

Annual Report: Feb. 15 or Aug. 15
Income Tax Return: April 1, or 60 days after close of fiscal year

Delaware

Annual Report: 1st Tuesday in January

District of Columbia

Annual Report: January 20

Florida

Occupational tax dates vary

Georgia

Annual Report: Nov. 1
Annual Franchise Tax: January 1
Income Tax Return: March 15

Hawaii

Annual Report: 60 days after Dec. 31
Income Tax Return: January 31

Idaho

Annual Franchise Tax: September 1

Illinois

Annual Franchise Tax: Feb. 28 or 29

Indiana

Annual Report: July 30
Annual Franchise Tax: May 15

Iowa

Annual Report: August 1
Annual Franchise Tax: August 1

Kansas

Annual Franchise Tax: March 31

Kentucky

Annual Franchise Tax: February 1

Louisiana

Annual Report: February 1

Maine

Annual Report: June 1
Annual Franchise Tax: Sept. 1

Maryland

Annual Report to Stockholders: Annual Meeting
Annual Report: March 15
Annual Franchise Tax: October 1

Massachusetts

Annual Report: 30 days after annual meeting
Income Tax: March 1

Michigan

Annual Franchise Tax: August 31

Minnesota

No dates provided

Mississippi

Annual Report: June 30
Income Tax: March 15, or 15th of 3rd month after close of fiscal year

Missouri

Annual Report: July 1
Annual Statement to Stockholders: 10 days before election of directors
Annual Franchise Tax: March 1
Income Tax: March 15 or 74 days before close of fiscal year

Montana

Annual Statement: March 1
Annual Franchise Tax: March 1

Nebraska

Annual Franchise Tax: July 1

Nevada

Annual Franchise Tax: July 1

New Hampshire

Annual Report (list of stockholders): March 1 (until capital paid in)
Annual Return: April 1
Annual Franchise Tax: April 1

New Jersey

Annual Report: 30 days after annual meeting
Annual Franchise Tax: First Tuesday in May

New Mexico

Annual Report: 30 days after annual meeting

New York

Annual Franchise Tax: February 15
Income Tax: July 1 or within 30 days after making U. S. report for fiscal or calendar year preceding July 1

North Carolina

Annual Franchise Tax: July 1
Income Tax: March 15 or 75 days after close of fiscal year

North Dakota

Annual Report: July 31
Annual Franchise Tax: July 1
Income Tax: March 15, or 15th of 3rd month following close of fiscal year.

Ohio

Annual Statement: Anunal Meeting or election of directors
Annual Franchise Tax: March 31

Oklahoma

Annual Franchise Tax: August 1

Oregon

Annual Franchise Tax: July 1

Pennsylvania

Tax on Capital Stock: March 15
Tax on Corporate Loans (notice): October 1

Philippine Islands

Income Tax: March 1 or 60 days after close of fiscal year.

PORTO RICO

Annual Report: March 15
Income Tax: March 15 or 15th of 3rd month following close of fiscal year.

RHODE ISLAND

Annual Report: Feb. 28 or 29
Annual Franchise Tax: March 1

SOUTH CAROLINA

Annual Statement to Stockholders: Dec. 30
Annual Franchise Tax: Feb. 28 or 29
Income Tax: 15th of 3rd month after preceding income year.

SOUTH DAKOTA

Annual Report: March 1

TENNESSEE

Annual Franchise Tax: July 1
Income Tax: March 15

TEXAS

Annual Franchise Tax: May 1

UTAH

Annual License Tax: Nov. 15

VERMONT

Annual Report: March 1
Annual Franchise Tax: March 1

VIRGINIA

Annual Report: 30 days after annual meeting
Annual Report of Business: Jan. 31
Annual Franchise Tax: March 1
Income Tax: April 15 or 15th of 4th month after close of fiscal year

WASHINGTON

Annual Report: 2nd Tuesday of January
Annual Franchise Tax: July 1

WEST VIRGINIA

Report to Stockholders: Annual meeting
Annual License Tax: July 1

WISCONSIN

Annual Report: March 31
Income: March 15 or 75 days after close of fiscal year

WYOMING

Annual Report (Franchise Tax): July 1

TABLE OF STATUTORY PROVISIONS RESPECTING STATE ORGANIZATION AND ANNUAL FRANCHISE TAXES

Corporation taxes in the several jurisdictions of the United States are usually of three kinds:

1. Organization Taxes. Such taxes are levied on the corporation at its inception, and are usually found to be a certain percentage of the authorized or issued and outstanding capital stock. It is not uncommon, however, to find organization taxes expressed in the form of filing fees, charges for issuing the charter or certificate of incorporation, etc.

2. Annual Franchise Taxes. Such taxes are paid by a corporation for the privilege of exercising its corporate franchise during the year, and are often based, as organization taxes are, on a certain percentage of the authorized or issued and outstanding, or paid-in capital stock. Sometimes a flat fee is charged.

3. Income Taxes. Such taxes are often imposed in addition to the annual franchise taxes, although in some states the income tax takes the place of the annual franchise tax. The Organization and Annual Franchise Tax Table which follows does not contain the various state provisions regulating corporation income taxes, the latter being included in a separate table to be found in this section.

Taxes other than those mentioned, such as corporation permit taxes, occupational taxes, etc., occur infrequently, but are noted in their respective positions. A full discussion of State Corporation Taxes will be found in the preceding pages of this section.

The tables which follow were compiled as of January 1, 1930 and therefore notice should be taken of any subsequent changes in state laws.

ALABAMA

Organization Tax

(*Minimum Tax $5.00*)

Par Value— $1.00 per $1,000 on proposed capital stock.

No Par Value— Stock taken at $100 per share for purposes of taxes *re* filing; or at any other figure that is proved to be the actual value.

Annual Tax

(*Minimum Tax $4.00*)

Par Value— $2.00 per $1,000 on capital stock. On and after December 31, 1931, tax will be $1.00 per $1,000.

No Par Value— Shares taken at $100. (See above)

Corporation Permit.

$ 10 per annum if paid capital stock less than $25,000
20 " " " " " over $ 25,000 and not over $ 50,000
30 " " " " " " 50,000 " " " 100,000
50 " " " " " " 100,000 " " " 150,000
100 " " " " " " 150,000

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	*ANNUAL		ORG.	*ANNUAL
10,000	10	20	100	10	20
25,000	25	50	250	25	50
50,000	50	100	500	50	100
75,000	75	150	750	75	150
100,000	100	200	1,000	100	200
250,000	250	500	2,500	250	500
300,000	300	600	3,000	300	600
400,000	400	800	4,000	400	800
500,000	500	1000	5,000	500	1000
750,000	750	1500	7,500	750	1500
1,000,000	1000	2000	10,000	1000	2000
2,000,000	2000	4000	20,000	2000	4000
3,000,000	3000	6000	30,000	3000	6000
4,000,000	4000	8000	40,000	4000	8000
5,000,000	5000	10000	50,000	5000	10000
10,000,000	10000	20000	100,000	10000	20000
25,000,000	25000	50000	250,000	25000	50000

*On and after Dec. 31, 1931, Annual Tax will be $1.00 per $1000.

*On and after Dec. 31, 1931, Annual Tax will be $1.00 per $1000.

ALASKA

Organization Tax

(*Minimum $25*)

Par Value— If authorized capital is $100,000 or less, $25.
If over $100,000, the $25 tax plus 10c. for each $1,000 up to and including $1,000,000; if authorized capital exceeds $1,000,000, a further fee of $10 for each $1,000,000 or fraction.

No Par Value— Value taken as $1.00 per share for this purpose.

Annual Tax $15

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25	15	100	25	15
25,000	25	15	250	25	15
50,000	25	15	500	25	15
75,000	25	15	750	25	15
100,000	25	15	1,000	25	15
250,000	40	15	2,500	25	15
300,000	45	15	3,000	25	15
400,000	55	15	4,000	25	15
500,000	65	15	5,000	25	15
750,000	90	15	7,500	25	15
1,000,000	115	15	10,000	25	15
2,000,000	125	15	20,000	25	15
3,000,000	135	15	30,000	25	15
4,000,000	145	15	40,000	25	15
5,000,000	155	15	50,000	25	15
10,000,000	205	15	100,000	25	15
25,000,000	355	15	250,000	40	15

ARIZONA

Organization Tax

No organization tax. Filing fee $10.

Annual Tax

(*Minimum fees $20*)

Annual registration fee $15.
Annual fee, filing report $5.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000		20	100		20
25,000		20	250		20
50,000		20	500		20
75,000		20	750		20
100,000		20	1,000		20
250,000		20	2,500		20
300,000		20	3,000		20
400,000	Filing Fee	20	4,000	Filing Fee	20
500,000	of $10	20	5,000	of $10	20
750,000		20	7,500		20
1,000,000		20	10,000		20
2,000,000		20	20,000		20
3,000,000		20	30,000		20
4,000,000		20	40,000		20
5,000,000		20	50,000		20
10,000,000		20	100,000		20
25,000,000		20	250,000		20

ARKANSAS

Organization Tax

(*Minimum Tax $10*)

Par Value— $1.00 per $1,000 par value of stock authorized up to and including $1,000,000
.50 per $1,000 of par value in excess of $1,000,000 and not over $2,000,000
.25 per $1,000 of par value in excess of $2,000,000 and not over $4,000,000
.10 per $1,000 of par value in excess of $4,000,000

No Par Value— Value taken as not less than $25 per share.

Annual Tax

Par Value— 11/100 of 1% on that part of subscribed capital stock employed in Arkansas. (In table all stock is assumed employed in state.)

No Par Value— Value taken as not less than $25 per share.

(See also Table of State Corporation Income Taxes.)

Secretary of State's Fee

For issuing charter, $5.00

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10		100	10	
25,000	25		250	10	
50,000	50		500	12.50	
75,000	75		750	18.75	
100,000	100		1,000	25.	
250,000	250	$1.10 per	2,500	62.50	$1.10 per
300,000	300	1,000 on	3,000	75	1,000 capital
400,000	400	capital em-	4,000	100	employed in
500,000	500	ployed in the	5,000	125	the state
750,000	750	state	7,500	187.50	
1,000,000	1000		10,000	250	
2,000,000	1500		20,000	500	
3,000,000	1750		30,000	750	
4,000,000	2000		40,000	1000	
5,000,000	2100		50,000	1125	
10,000,000	2600		100,000	1625	
25,000,000	4100		250,000	2225	

CALIFORNIA

Organization Tax

(Minimum Tax $15)

Par Value— Capital Stock $25,000 or less— $ 15
Over $ 25,000 and not over $ 75,000 25
" 75,000 and not over 200,000 50
" 200,000 and not over 500,000 75
" 500,000 and not over 1,000,000 100
" 1,000,000-$50 per additional $500,000 or fraction thereof.

No Par Value— Stock taken at $10 per share.

Annual Tax

(Minimum Tax $25)

4% of net income, to be offset by amount of personal property taxes, such offset not to exceed 90% of such taxes.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	15		100	15	
25,000	15		250	15	
50,000	25		500	15	
75,000	25		750	15	
100,000	50		1,000	15	
250,000	75		2,500	15	
300,000	75		3,000	25	
400,000	75		4,000	25	
500,000	75	See Text.	5,000	25	See Text.
750,000	100		7,500	25	
1,000,000	100		10,000	50	
2,000,000	200		20,000	50	
3,000,000	300		30,000	75	
4,000,000	400		40,000	75	
5,000,000	500		50,000	75	
10,000,000	1000		100,000	100	
25,000,000	2500		200,000	250	

COLORADO

Organization Tax

(Minimum Tax $20)

Par Value— If authorized capital does not exceed $50,000, tax is $20; over $50,000 a further tax of 20c. per $1,000 of such excess.

No Par Value— Value taken as $1.00 per share.

Annual Tax

(Minimum Tax $10)

Par Value— $10 on a capitalization of $100,000 or less, and 10c. on each $1,000 or part thereof when capitalization is over $100,000.

No Par Value— Value taken as $1.00 per share.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	20	10	100	20	10
25,000	20	10	250	20	10
50,000	20	10	500	20	10
75,000	25	10	750	20	10
100,000	30	10	1,000	20	10
250,000	60	25	2,500	20	10
300,000	70	30	3,000	20	10
400,000	90	40	4,000	20	10
500,000	110	50	5,000	20	10
750,000	160	75	7,500	20	10
1,000,000	210	100	10,000	20	10
2,000,000	410	200	20,000	20	10
3,000,000	610	300	30,000	20	10
4,000,000	810	400	40,000	20	10
5,000,000	1010	500	50,000	20	10
10,000,000	2010	1000	100,000	30	10
25,000,000	5010	2500	250,000	60	25

CONNECTICUT

Organization Tax

(Minimum Tax $50 plus $10 filing fee.)

Par Value— $1.00 per $1,000 of authorized capital stock. Filing fee $10.

No Par Value— $1.00 per 100 shares or fraction thereof, but if consideration for stock exceeds $10 per share, tax is $1.00 per $1,000 of value of the no par stock.

Annual Tax

No annual franchise tax.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.*	ANNUAL
10,000	50		100	50	
25,000	50		250	50	
50,000	50		500	50	
75,000	75		750	75	
100,000	100		1,000	100	
250,000	250		2,500	250	
300,000	300	Tax On	3,000	300	See Text
400,000	400	Income	4,000	400	Tax On
500,000	500	See Text	5,000	500	Income
750,000	750		7,500	750	
1,000,000	1000		10,000	1000	
2,000,000	2000		20,000	2000	
3,000,000	3000		30,000	3000	
4,000,000	4000		40,000	4000	
5,000,000	5000		50,000	5000	
10,000,000	10000		100,000	10000	
25,000,000	25000		250,000	25000	

*Computed on $100 per share value.

DELAWARE

Organization Tax

(Minimum Tax $10)

Par Value— 1c. per $100 on authorized capital stock up to $2,000,000; ½c. per $100 in excess of $2,000,000 up to and including $20,000,000, and 1/5c. per $100 in excess of $20,000,000, plus fees approximating $15.00 for filing and certifying.

No Par Value— ½c. per share up to 20,000 shares; ¼c. per share in excess of 20,000 shares up to 2,000,000 shares; 1/5c. per share in excess of 2,000,000 shares, plus fees approximately $15.00 for filing and certifying.

Annual Tax

(Minimum Tax $5.00; Maximum Tax $25,000)

Par Value— Based on authorized number of shares. ($100 units.)
250 shares or less $5.00.
Over 250 but not over 1000 shares $10.00
" 1000 " " " 3000 " 20.00
" 3000 " " " 5000 " 25.00
" 5000 " " " 10000 " 50.00
Plus $25 for each additional 10,000 shares.

No Par Value— Based on authorized number of shares, rate same as for par value.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	5	100	10	5
25,000	10	5	250	10	5
50,000	10	10	500	10	10
75,000	10	10	750	10	10
100,000	10	10	1,000	10	10
250,000	25	20	2,500	12.50	20
300,000	30	20	3,000	15	20
400,000	40	25	4,000	20	25
500,000	50	25	5,000	25	25
750,000	75	50	7,500	37.50	50
1,000,000	100	50	10,000	50	50
2,000,000	200	75	20,000	100	75
3,000,000	250	100	30,000	125	100
4,000,000	300	125	40,000	150	125
5,000,000	350	150	50,000	175	150
10,000,000	600	275	100,000	300	275
25,000,000	1350	650	250,000	675	650

The information supplied in these tables is based on data furnished by Organization-Maintenance, Inc., New York.

DISTRICT OF COLUMBIA

Organization Tax

(Minimum Tax $25)

Par Value— No organization tax other than filing and recording fees, 40c. per $1,000 of amount of capital stock (recording fee) plus 50c. for each instrument of not over 200 words and 15c. for each additional 100 words (filing fee). Minimum $25.

No Par Value— No statutory provision.

Annual Tax

None, other than license fees which apply to individuals.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100		
25,000	25		250		
50,000	25		500		
75,000	30		750		
100,000	40		1,000		
250,000	100		2,500		
300,000	120	None other	3,000	No	None other
400,000	160	than that	4,000	statutory	than that
500,000	200	required of	5,000	provision	required of
750,000	300	an individual	7,500		an individual
1,000,000	400		10,000		
2,000,000	800		20,000		
3,000,000	1200		30,000		
4,000,000	1600		40,000		
5,000,000	2000		50,000		
10,000,000	4000		100,000		
25,000,000	10000		250,000		

FLORIDA

Organization Tax

(Minimum fee, $10.00)

Par Value— Rate on not more than $125,000 authorized stock is $2.00 for each $1,000; on more than $125,000, but not more than $1,000,000, 50c. for each $1,000; on more than $1,000,000 but not more than $2,000,000, 25c. for each $1,000 and for amounts in excess of $2,000,000, 10c. per $1,000.

No Par Value— Rate on not more than 1250 shares of authorized stock is 20c. per share; on more than 1250 shares but not exceeding 10,000 shares, 5c. per share; on more than 10,000 shares but not more than 20,000 shares ¼ of 1c. per share; on more than 20,000 shares, 1/10 of 1c. per share.

Annual Tax

None

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	20		100	20	
25,000	50		250	50	
50,000	100		500	100	
75,000	150		750	150	
100,000	200		1,000	200	
250,000	312.50		2,500	312.50	
300,000	337.50		3,000	337.50	
400,000	387.50	None	4,000	387.50	None
500,000	437.50		5,000	437.50	
750,000	562.50		7,500	562.50	
1,000,000	687.50		10,000	687.50	
2,000,000	937.50		20,000	937.50	
3,000,000	1,037.50		30,000	1,037.50	
4,000,000	1,137.50		40,000	1,137.50	
5,000,000	1,237.50		50,000	1,237.50	
10,000,000	1,737.50		100,000	1,737.50	
25,000,000	3,237.50		250,000	3,237.50	

GEORGIA

Organization Tax

(Minimum fee $15)

No organization tax, but filing fee of about $15.00.

Annual Tax

(Minimum Tax $10)

Par Value— Rate on issued capital stock as follows:

Not over	$10,000.				$ 10.00
Over $	10,000	and not over $	25,000		30.00
"	25,000	" " "	75,000		75.00
"	75,000	" " "	100,000		100.00
"	100,000	" " "	300,000		200.00
"	300,000	" " "	500,000		250.00
"	500,000	" " "	750,000		300.00
"	750,000	" " "	1,000,000		500.00
"	1,000,000	" " "	2,000,000		750.00
"	2,000,000	" " "	4,000,000		1,000.00
"	4,000,000	" " "	6,000,000		1,250.00
"	6,000,000	" " "	8,000,000		1,500.00
"	8,000,000	" " "	10,000,000		1,750.00
"	10,000,000	" " "	12,000,000		2,000.00
"	12,000,000	" " "	14,000,000		2,500.00
"	14,000,000	" " "	16,000,000		3,000.00
"	16,000,000	" " "	18,000,000		3,500.00
"	18,000,000	" " "	20,000,000		4,000.00
"	20,000,000	" " "	22,000,000		4,500.00
"	22,000,000				5,000.00

No Par Value— Value fixed by comptroller-general from information contained in report, but not more than true value.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	15	10	100	15	
25,000	15	30	250	15	
50,000	15	75	500	15	
75,000	15	75	750	15	
100,000	15	100	1,000	15	
250,000	15	200	2,500	15	
300,000	15	200	3,000	15	
400,000	15	250	3,000	15	
500,000	15	250	5,000	15	See Text
750,000	15	300	7,500	15	
1,000,000	15	500	10,000	15	
2,000,000	15	750	20,000	15	
3,000,000	15	1000	30,000	15	
4,000,000	15	1000	40,000	15	
5,000,000	15	1250	50,000	15	
10,000,000	15	1750	100,000	15	
25,000,000	15	5000	250,000	15	

HAWAII

Organization Tax

(Minimum Tax $35.00)

Par Value— 20c. per $1,000 of authorized capital stock.

No Par Value— No statutory provision for issue of no par value stock.

Annual Tax

No provision. Foreign corporations must pay $100.00.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	35		100		
25,000	35		250		
50,000	35		500		
75,000	35		750		
100,000	35	No provision	1,000		
250,000	50	as to	2,500		Foreign
300,000	60	Domestic.	3,000	No provision	Corporations
400,000	80	Foreign	4,000		Pay $100
500,000	100	Corporations	5,000		
750,000	150	must pay	7,500		
1,000,000	200	$100	10,000		
2,000,000	400		20,000		
3,000,000	600		30,000		
4,000,000	800		40,000		
5,000,000	1000		50,000		
10,000,000	2000		100,000		
25,000,000	5000		250,000		

IDAHO

Organization Tax

(Minimum fee $10 plus $3.00 for issuing certificate of incorporation.)

Par Value— Filing fees based on authorized capital, as follows:

Not over $25,000				$ 10
Over $	25,000	and not over $	50,000	20
"	50,000	" " "	100,000	40
"	100,000	" " "	500,000	60
"	500,000	" " "	1,000,000	100
"	1,000,000			150

No Par Value— For determining value of no-par shares, "shares capital" is actual excess of assets over liabilities, other than liabilities on account of stock issued or to be issued. Where par and also no-par shares are outstanding, the portion of "shares capital" applicable to no-par shares is excess of "shares capital" over total par value of outstanding par shares; but "shares capital" does not include net profits or surplus earnings during such period as same may be distributed in form of dividends.

Issuing certificate of incorporation, $3.00

Annual Tax

(Minimum Tax $10)

Par Value— Rate is based on authorized capital stock as follows:

Not over $5,000				$ 10.00
Over $	5,000	and not over $	10,000	12.50
"	10,000	" " "	25,000	15.00
"	25,000	" " "	50,000	22.50
"	50,000	" " "	100,000	37.50
"	100,000	" " "	250,000	52.50
"	250,000	" " "	500,000	75.00
"	500,000	" " "	1,000,000	90.00
"	1,000,000	" " "	2,000,000	130.00
"	2,000,000			150.00

The corporation must pay annual license tax for balance of fiscal year after incorporation.

No Par Value —Same as No Par Value above.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	12.50			
25,000	10	15			
50,000	20	22.50			
75,000	40	37.50			
100,000	40	37.50			
250,000	60	52.50			
300,000	60	75			
400,000	60	75			
500,000	60	75	See Text.	See Text.	See Text.
750,000	100	90			
1,000,000	100	90			
2,000,000	150	130			
3,000,000	150	150			
4,000,000	150	150			
5,000,000	150	150			
10,000,000	150	150			
25,000,000	150	150			

ILLINOIS

Organization Tax

(Minimum Fee $20)

Par Value— 1/20 of 1% on capital stock issued or to be issued at once; same rate for stock issued subsequently plus amendment fee of $20.

No Par Value— 1/20 of 1% of amount received by corporation for the stock.

Annual Tax

(Minimum fee $10)

Par Value— Rate is 5c. on each $100 of proportion of capital stock (issued or to be issued at once) represented by business transacted and property located in Illinois. If no business transacted in Illinois and no property there, rate is as follows on capital stock issued or about to be issued at once:

$50,000 or less				$ 10.00
Over $	50,000	and not exceeding $	200,000	15.00
"	200,000	" " "	500,000	20.00
"	500,000	" " "	1,000,000	50.00
"	1,000,000	" " "	10,000,000	200.00
"	10,000,000	" " "	20,000,000	500.00
"	20,000,000			1,000.00

No Par Value— Shares to be taken at amount of consideration received by the corporation for the stock.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	20	10	100		
25,000	20	10	250		
50,000	25	10	500		
75,000	37.50	15	750		
100,000	50	15	1,000		
250,000	125	20	2,500		
300,000	150	20	3,000		
400,000	200	20	4,000	50c. per	
500,000	250	20	5,000	$1,000 on	See Text.
750,000	375	50	7,500	amount	
1,000,000	500	50	10,000	received by	
2,000,000	1000	200	20,000	company.	
3,000,000	1500	200	30,000		
4,000,000	2000	200	40,000		
5,000,000	2500	200	50,000		
10,000,000	5000	200	100,000		
25,000,000	12500	1000	250,000		

INDIANA

Organization Tax

(*Minimum fee $10*)

Par Value— 1,000 authorized shares or less, $10. Over 1,000 authorized shares, 1c. per share.

No Par Value— Same as for Par Value.

Annual Tax

Par Value— Determined by tax commissioners, based on assessed value of franchise.

No Par Value— Same as for Par Value.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10		100	10	
25,000	10		250	10	
50,000	10		500	10	
75,000	10		750	10	
100,000	10		1,000	10	
250,000	25		2,500	25	
300,000	30		3,000	30	
400,000	40	Tax on	4,000	40	Tax on
500,000	50	Assessed	5,000	50	Assessed
750,000	75	Values.	7,500	75	Values.
1,000,000	100		10,000	100	
2,000,000	200		20,000	200	
3,000,000	300		30,000	300	
4,000,000	400		40,000	400	
5,000,000	500		50,000	500	
10,000,000	1000		100,000	1000	
25,000,000	2500		250,000	2500	

IOWA

Organization Tax

(*Minimum fee $25*)

Par Value— Where authorized capital is $10,000 or less, $25. Add $1 per thousand in excess of $10,000.

No Par Value— Value taken as $100 per share.

Annual Tax

(*Minimum fee $1.00*)

Par Value— Flat fee of $1.00.

No Par Value— Same as for Par Value.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100	25	
25,000	40		250	40	
50,000	65		500	65	
75,000	90		750	90	
100,000	115		1,000	115	
250,000	265		2,500	265	
300,000	315		3,000	315	
400,000	415	Flat fee of	4,000	415	Flat fee of
500,000	515	one dollar.	5,000	515	one dollar.
750,000	765		7,500	765	
1,000,000	1015		10,000	1015	
2,000,000	2015		20,000	2015	
3,000,000	3015		30,000	3015	
4,000,000	4015		40,000	4015	
5,000,000	5015		50,000	5015	
10,000,000	10015		100,000	10015	
25,000,000	25015		250,000	25015	

KANSAS

Organization Tax

(Minimum fee $10 plus application fee of $25)

Par Value— "Capitalization fee," based on authorized capital stock as follows:
Not over $100,000, fee is 1/10 of 1% of authorized amount; over $100,000, fee is $100 plus 1/20 of 1% of amount of capital in excess of $100,000. Application fee of $25 to be paid in all cases in addition to tax.

No Par Value— Value taken as $100 per share, or actual value may be shown.

Annual Tax

(Minimum Tax $10)

Par Value— Rate is based on paid up capital stock as follows:

Not over	$10,000				$ 10.00
Over $	10,000	and not over $	25,000		25.00
"	25,000	" " "	50,000		50.00
"	50,000	" " "	100,000		100.00
"	100,000	" " "	250,000		125.00
"	250,000	" " "	500,000		250.00
"	500,000	" " "	1,000,000		500.00
"	1,000,000	" " "	2,000,000		1,000.00
"	2,000,000	" " "	3,000,000		1,500.00
"	3,000,000	" " "	5,000,000		2,000.00
"	5,000,000				2,500.00

No Par Value— Value taken as $100 per share, or actual value may be shown.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	35	10	100	35	10
25,000	50	25	250	50	25
50,000	75	50	500	75	50
75,000	100	100	750	100	100
100,000	125	100	1,000	125	100
250,000	200	125	2,500	200	125
300,000	225	250	3,000	225	250
400,000	275	250	4,000	275	250
500,000	325	250	5,000	325	250
750,000	450	500	7,500	450	500
1,000,000	575	500	10,000	575	500
2,000,000	1075	1000	20,000	1075	1000
3,000,000	1575	1500	30,000	1575	1500
4,000,000	2075	2000	40,000	2075	2000
5,000,000	2575	2000	50,000	2575	2000
10,000,000	5075	2500	100,000	5075	2500
25,000,000	12575	2500	250,000	12575	2500

KENTUCKY

Organization Tax

Par Value— 1/10 of 1% on authorized capital stock.

No Par Value— Value taken as $100 per share.

Annual Tax

(Minimum Tax $10)

Par Value— 70c. per $1000 on portion of asset value of capital stock represented by property owned and business done in the state, ascertained by finding proportion that property owned and business transacted in Kentucky bears to aggregate amount of property owned and business transacted in and out of Kentucky.

No Par Value— Value taken as $100 per share.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	10	100	10	10
25,000	25	17.50	250	25	17.50
50,000	50	35	500	50	35
75,000	75	52.50	750	75	52.50
100,000	100	70	1,000	100	70
250,000	250	175	2,500	250	175
300,000	300	210	3,000	300	210
400,000	400	280	4,000	400	280
500,000	500	350	5,000	500	350
750,000	750	525	7,500	750	525
1,000,000	1000	700	10,000	1000	700
2,000,000	2000	1400	20,000	2000	1400
3,000,000	3000	2100	30,000	3000	2100
4,000,000	4000	2800	40,000	4000	2800
5,000,000	5000	3500	50,000	5000	3500
10,000,000	10000	7000	100,000	10000	7000
25,000,000	25000	17500	250,000	25000	17500

LOUISIANA

Organization Tax

(*Minimum tax $10; Maximum tax $2500*).

Par Value— 1/20 of 1% (50c. per $1000) on authorized capital.

No Par Value— ½c. per share up to 10,000 shares, and ¼c. per share in excess of 10,000 shares.

Annual Tax

No annual tax. There is an occupational tax on all individuals, firms and corporations.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10		100	10	
25,000	12.50		250	12.50	
50,000	25		500	25	
75,000	37.50		750	37.50	
100,000	50		1,000	50	
250,000	125		2,500	125	
300,000	150	Occupational	3,000	150	Occupational
400,000	200	Tax.	4,000	200	Tax.
500,000	250	No annual	5,000	250	No annual
750,000	375	tax.	7,500	375	tax.
1,000,000	500		10,000	500	
2,000,000	1000		20,000	750	
3,000,000	1500		30,000	1000	
4,000,000	2000		40,000	1250	
5,000,000	2500		50,000	1500	
10,000,000	2500		100,000	2500	
25,000,000	2500		250,000	2500	

MAINE

Organization Tax

(*Minimum tax $10*)

Par Value— Rate on authorized capital up to $10,000 is $10; from $10,000 to $500,000 is $50; and for each additional $100,000, over $500,000, $10.

No Par Value— Rate is 1c. on each share authorized.

Miscellaneous Fees— About $17.00.

Annual Tax

Par Value— Rate on authorized capital is $5 up to $50,000, $10 up to $200,000, $50 up to $500,000, $75 up to $1,000,000 and $50 for each $1,000,000 or fraction thereof in excess of $1,000,000.

No Par Value— Rate is 5 mills on each share authorized. (Minimum $10).

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	5	100	10	10
25,000	50	5	250	10	10
50,000	50	5	500	10	10
75,000	50	10	750	10	10
100,000	50	10	1,000	10	10
250,000	50	50	2,500	25	12.50
300,000	50	50	3,000	30	15
400,000	50	50	4,000	40	20
500,000	50	50	5,000	50	25
750,000	80	75	7,500	75	37.50
1,000,000	100	75	10,000	100	50
2,000,000	200	125	20,000	200	100
3,000,000	300	175	30,000	300	150
4,000,000	400	225	40,000	400	200
5,000,000	500	275	50,000	500	250
10,000,000	1000	525	100,000	1000	500
25,000,000	2500	1275	250,000	2500	1250

MARYLAND

Organization Tax

(Minimum fee $20)

Par Value— Rate is 20c. per $1,000, not exceeding $1,000,000 authorized capital stock; $150 for each million where amount is more than one million dollars but not more than five million dollars, and $20 for each million in excess of five million dollars.

No Par Value— Rate is same as for par value shares, each share being taken for the purpose to have a value of $100.

Annual Tax

Par Value— Rate is $10.00 for the first $5,000 of issued, outstanding or subscribed stock; $1.00 per thousand on amounts from $5,000 to $50,000; $1.00 for each two thousand on amounts from $50,000 to $100,000. An additional tax of $20.00 is levied on amounts from $100,000 to $250,000; an additional $20.00 imposed on amounts from $250,000 to $500,000; an additional tax of $30.00 is imposed on amounts from $500,000 to $1,000,000 and an additional tax of $50.00 per million is imposed for each million or fraction thereof on amounts in excess of $1,000,000 but not greater than $10,000,000; and for every $5,000,000 in excess of $10,000,000 an additional tax of $100.00 is imposed.

No Par Value— Stock taken at value of $100.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	20	15	100	20	15
25,000	20	30	250	20	30
50,000	20	55	500	20	55
75,000	20	67.50	750	20	67.50
100,000	20	80	1,000	20	80
250,000	50	100	2,500	50	100
300,000	60	120	3,000	60	120
400,000	80	120	4,000	80	120
500,000	100	120	5,000	100	120
750,000	150	150	7,500	150	150
1,000,000	200	150	10,000	200	150
2,000,000	350	200	20,000	350	200
3,000,000	500	250	30,000	500	250
4,000,000	650	300	40,000	650	300
5,000,000	800	350	50,000	800	350
10,000,000	900	600	100,000	900	600
25,000,000	1200	900	250,000	1200	900

MASSACHUSETTS

Organization Tax

(Minimum fee $50)

Par Value— 1/20 of 1% of total amount of authorized capital.

No Par Value— 1c. per share.

Annual Tax

Par Value— Rate is based on corporate excess. An excise equal to sum of the following, provided that every corporation shall pay annually a total excise not less than 1/20 of 1% of fair value of capital stock on day fixed for determination of its corporate excess: (1) $5 per $1000 on value of corporate excess (2) 2½% of net income determined to be taxable.

No Par Value— Same as for Par Value.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	50		100	50	
25,000	50		250	50	
50,000	50		500	50	
75,000	50		750	50	
100,000	50		1,000	50	
250,000	125		2,500	50	
300,000	150		3,000	50	
400,000	200		4,000	50	
500,000	250	Excess Tax.	5,000	50	Excess Tax
750,000	375		7,500	75	
1,000,000	500		10,000	100	
2,000,000	1000		20,000	200	
3,000,000	1500		30,000	300	
4,000,000	2000		40,000	400	
5,000,000	2500		50,000	500	
10,000,000	5000		100,000	1000	
25,000,000	12500		250,000	2500	

MICHIGAN

Organization Tax

(Minimum fee $25 plus filing fee of $5.)

Par Value— One half mill upon the dollar for each dollar of authorized capital stock (50c. on each $1000).

No Par Value— Value shall be taken as at least $1 per share.

Annual Tax

(Minimum $10.—Maximum $50,000).

Par Value— Two and one-half mills per dollar of paid-up capital and surplus. ($2.50 on each $1,000).

No Par Value— Value to be taken as at least $1.00 per share.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25	25	100	25	10
25,000	25	62.50	250	25	10
50,000	25	125	500	25	10
75,000	37.50	187.50	750	25	10
100,000	50	250	1,000	25	10
250,000	125	625	2,500	25	10
300,000	150	750	3,000	25	10
400,000	200	1000	4,000	25	10
500,000	250	1250	5,000	25	12.50
750,000	375	1875	7,500	25	18.75
1,000,000	500	2500	10,000	25	25
2,000,000	1000	5000	20,000	25	50
3,000,000	1500	7500	30,000	25	75
2,000,000	2000	10000	40,000	25	100
5,000,000	2500	12500	50,000	25	125
10,000,000	5000	25000	100,000	50	300
25,000,000	12500	50000	250,000	125	625

MINNESOTA

Organization Tax

(Minimum Fee $50.)

Par Value— $50 for first $50,000 of capital stock or any fraction thereof and $5 for each additional $10,000 or fraction thereof. (Exemption—Live stock, canning, farming, telephone companies, etc.)

No Par Value— Shares shall be taken to be of the value of $100 each.

Annual Tax

Par Value— None.

No Par Value— None.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	50		100	50	
25,000	50		250	50	
50,000	50		500	50	
75,000	65		750	65	
100,000	75		1,000	75	
250,000	150		2,500	150	
300,000	175		3,000	175	
400,000	225		4,000	225	
500,000	275		5,000	275	
750,000	400	None.	7,500	400	None.
1,000,000	525		10,000	525	
2,000,000	1025		20,000	1025	
3,000,000	1525		30,000	1525	
4,000,000	2025		40,000	2025	
5,000,000	2525		50,000	2525	
10,000,000	5025		100,000	5025	
25,000,000	12525		250,000	12525	

MISSISSIPPI

Organization Tax

(Minimum $20—Maximum $500.)

Par Value— Based on authorized capital, rate as follows:

$5,000 or less, $20.00. In excess of $5,000, $20.00 for first $5,000 and $2.00 per $1,000 additional on each $1,000 or part thereof in excess of first $5000.

Building and loan associations, flat fee of $100.

No Par Value— No provision.

Annual Tax

Par Value— None.

No Par Value— None.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	30		100		
25,000	60		250		
50,000	110		500		
75,000	160		750		
100,000	210		1,000		
250,000	500		2,500		
300,000	500		3,000		
400,000	500		4,000		
500,000	500	None.	5,000	No Provision.	None.
750,000	500		7,500		
1,000,000	500		10,000		
2,000,000	500		20,000		
3,000,000	500		30,000		
4,000,000	500		40,000		
5,000,000	500		50,000		
10,000,000	500		100,000		
25,000,000	500		250,000		

MISSOURI

Organization Tax

(Minimum Tax $50. Additional Fees $3.)

Par Value— Rate is $50.00 for first $50,000 or less of authorized capital stock, and $5.00 for every additional $10,000. Additional fees $3.00.

No Par Value— Value taken as $100 per share.

Annual Tax

Par Value— 1/20 of 1% of outstanding capital stock and surplus. (Amounts to 50c. per $1,000.)

No Par Value— Value set at $5.00 per share unless shown to be of greater value in which case tax is based on actual value plus surplus. Note:—If corporation employs part of capital stock in another state, tax is apportioned.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	50	5	100	50	
25,000	50	12.50	250	50	
50,000	50	25	500	50	
75,000	65	37.50	750	65	
100,000	75	50	1,000	75	
250,000	150	125	2,500	150	
300,000	175	150	3,000	175	
400,000	225	200	4,000	225	
500,000	275	250	5,000	275	See Text.
750,000	400	375	7,500	400	
1,000,000	525	500	10,000	525	
2,000,000	1025	1000	20,000	1025	
3,000,000	1525	1500	30,000	1525	
4,000,000	2025	2000	40,000	2025	
5,000,000	2525	2500	50,000	2525	
10,000,000	5025	5000	100,000	5025	
25,000,000	12525	12500	250,000	12525	

MONTANA

Organization Tax

(*Minimum Fee $50.* plus $3 fee for issuing certificate)

Par Value— Rate is based on authorized capital stock as follows:

Amounts up to	$ 100,000		$1.00	per $1000
Additional from	100,000 to	$ 250,000	.80	per 1000
" "	250,000 to	500,000	.60	per 1000
" "	500,000 to	1,000,000	.40	per 1000
" over	1,000,000		.20	per 1000

No Par Value— No provision.

Annual Tax

Par Value— 1% of total net income.

No Par Value— Same as for Par Value.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	50		100		
25,000	50		250		
50,000	50		500		
75,000	75		750		
100,000	100		1,000		
250,000	220		2,500		
300,000	250		3,000		
400,000	310		4,000		
500,000	370	Based on	5,000	No Provision.	Based on
750,000	470	Income.	7,500		Income.
1,000,000	570		10,000		
2,000,000	770		20,000		
3,000,000	970		30,000		
4,000,000	1170		40,000		
5,000,000	1370		50,000		
10,000,000	2370		100,000		
25,000,000	5370		250,000		

NEBRASKA

Organization Tax

(*Minimum Fee $10.*)

Par Value— Rate is based on authorized capital as follows:

$10,000 or less $10.00
Over $ 10,000 and not over $ 25,000 20.00
" 25,000 " " " 100,000 50.00
" 100,000, 50c. additional for each $1000 in excess of $100,000.

No Par Value— The issue of no par stock is prohibited.

Annual Tax

(*Minimum fee $5.*)

Par Value— Rate is based on paid up capital as follows:

Over $	1,000	and not over $	10,000	$	5.00
"	10,000	" " "	20,000		10.00
"	20,000	" " "	30,000		15.00
"	30,000	" " "	40,000		20.00
"	40,000	" " "	50,000		25.00
"	50,000	" " "	60,000		30.00
"	60,000	" " "	70,000		35.00
"	70,000	" " "	80,000		40.00
"	80,000	" " "	90,000		45.00
"	90,000	" " "	100,000		50.00
"	100,000	" " "	125,000		60.00
"	125,000	" " "	150,000		70.00
"	150,000	" " "	175,000		80.00
"	175,000	" " "	200,000		90.00
"	200,000	" " "	225,000		100.00
"	225,000	" " "	250,000		110.00
"	250,000	" " "	275,000		120.00
"	275,000	" " "	300,000		130.00
"	300,000	" " "	325,000		140.00
"	325,000	" " "	350,000		150.00
"	350,000	" " "	400,000		160.00
"	400,000	" " "	450,000		170.00
"	450,000	" " "	500,000		180.00
"	500,000	" " "	600,000		200.00
"	600,000	" " "	700,000		250.00
"	700,000	" " "	800,000		300.00
"	800,000	" " "	900,000		350.00
"	900,000	" " "	1,000,000		400.00
"	1,000,000	" " "	10,000,000		400.00 plus $75.00 additional

for each million or fraction thereof over and above $1,000,000.

Over	10,000,000	" " "	15,000,000		1,200.00
"	15,000,000	" " "	20,000,000		1,500.00
"	20,000,000	" " "	25,000,000		2,000.00
"	25,000,000				2,500.00

No Par Value— The issue of no par stock is prohibited.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	5	100		
25,000	20	15	250		
50,000	50	25	500		
75,000	50	40	750		
100,000	50	50	1,000		
250,000	125	110	2,500		
300,000	150	130	3,000	Issuance	Issuance
400,000	200	160	4,000	of no par	of no par
500,000	250	180	5,000	stock	stock
750,000	375	300	7,500	prohibited.	prohibited.
1,000,000	500	400	10,000		
2,000,000	1000	475	20,000		
3,000,000	1500	550	30,000		
4,000,000	2000	625	40,000		
5,000,000	2500	700	50,000		
10,000,000	5000	1075	100,000		
25,000,000	12500	2000	250,000		

NEVADA

Organization Tax

(*Minimum fee $25.*)

Par Value— Rate is 10c. per $1000 of authorized stock up to $1,000,000. Over $1,000,000 rate is 5c. on each $1000.

No Par Value— Rate is 10c. per 1000 shares authorized.
Note:—County Clerk's fees for filing do not exceed $10.

Annual Tax

(*Minimum $5.*)

Flat fee of $5.00.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100	25	
25,000	25		250	25	
50,000	25		500	25	
75,000	25		750	25	
100,000	25		1,000	25	
250,000	25		2,500	25	
300,000	30		3,000	25	
400,000	40	Flat fee	4,000	25	Flat fee
500,000	50	$5.00	5,000	25	$5.00.
750,000	75		7,500	25	
1,000,000	100		10,000	25	
2,000,000	150		20,000	25	
3,000,000	200		30,000	25	
4,000,000	250		40,000	25	
5,000,000	300		50,000	25	
10,000,000	550		100,000	25	
25,000,000	1300		250,000	25	

NEW HAMPSHIRE

Organization Tax

(*Minimum Tax $10.00*)

Par Value— Rate is based on amount of authorized capital stock as follows:

Not over $10,000				$ 10.00
Over $	10,000	and not over $	50,000	25.00
"	50,000	" " "	250,000	100.00
"	250,000	" " "	500,000	150.00
	500,000	" " "	1,000,000	250.00

For each additional $100,000 in excess of $1,000,000, $10.00
For a corporation not to carry on business and have principal office in New Hampshire, rate is as follows, based on authorized capital:

Not over $25,000				$ 10.00
Over $	25,000	and not over $	100,000	25.00
"	100,000	" " "	500,000	50.00
"	500,000	" " "	1,000,000	100.00
"	1,000,000			200.00

No Par Value— Value taken as $50.00 per share.

Annual Tax

(*Minimum tax $5: Maximum $100.*)

Par Value— ¼ the amount paid on filing original record of organization plus ¼ amount paid for increases in capital.

No Par Value— ¼ amount originally paid.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	5	100	10	5.
25,000	25	6.25	250	25	6.25
50,000	25	6.25	500	25	6.25
75,000	100	25	750	25	6.25
100,000	100	25	1,000	25	6.25
250,000	100	25	2,500	100	25
300,000	150	37.50	3,000	100	25
400,000	150	37.50	4,000	100	25
500,000	150	37.50	5,000	100	25
750,000	250	62.50	7,500	150	37.50
1,000,000	250	62.50	10,000	150	37.50
2,000,000	350	87.50	20,000	250	62.50
3,000,000	450	100	30,000	300	75
4,000,000	550	100	40,000	350	87.50
5,000,000	650	100	50,000	400	100
10,000,000	1150	100	100,000	650	100
25,000,000	2650	100	250,000	1400	100

NEW JERSEY

Organization Tax

(*Minimum Fee $25.00*)

Par Value— Rate is 20c. per each $1000 of authorized capital stock.

No Par Value— Rate is 1c. per share on authorized number of shares.

Annual Tax

Par Value— Rate is 1/10 of 1% on amount of capital stock issued and outstanding up to $3,000,000. In excess of $3,000,000 and not exceeding $5,000,000, 1/20 of 1%, and further sum of $50 per $1,000,000 or fraction in excess of $5,000,000.

No Par Value— Rate is 3c. on each share issued up to and including 20,000 shares plus 2c. per share for next 10,000 shares, plus 1c. per share for next 10,000 shares, plus ½c. per share for next 10,000 shares, plus ¼c. per share for amount exceeding 50,000 shares.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25	10	100	25	3
25,000	25	25	250	25	7.50
50,000	25	50	500	25	15
75,000	25	75	750	25	22.50
100,000	25	100	1,000	25	30
250,000	50	250	2,500	25	75
300,000	60	300	3,000	30	90
400,000	80	400	4,000	40	120
500,000	100	500	5,000	50	150
750,000	150	750	7,500	75	225
1,000,000	200	1000	10,000	100	300
2,000,000	400	2000	20,000	200	600
3,000,000	600	3000	30,000	300	800
4,000,000	800	3500	40,000	400	900
5,000,000	1000	4000	50,000	500	950
10,000,000	2000	4250	100,000	1000	1075
25,000,000	5000	5000	250,000	2500	1450

NEW MEXICO

Organization Tax

(*Minimum Tax $25.*)

Par Value— Rate is 10c. for each $1,000 of authorized capital.

No Par Value— Value taken as $100 per share, or actual value, in which case value is taken as amount of capital paid in, but shall not be more than excess of capital over liabilities other than liabilities on account of shares issued or to be issued. Where both par and no-par stock is issued, portion of stated capital applicable to no-par stock shall be excess of stated capital over total value of outstanding par shares.

Annual Tax

Franchise tax law repealed in 1929. No tax. There is a filing fee for annual report of corporation at rate of 5c. per $1,000 of issued stock. Minimum $5.00.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100	25	
25,000	25		250	25	
50,000	25		500	25	
75,000	25		750	25	
100,000	25		1,000	25	
250,000	25		2,500	25	
300,000	30		3,000	30	
400,000	40	See Text.	4,000	40	See Text.
500,000	50		5,000	50	
750,000	75		7,500	75	
1,000,000	100		10,000	100	
2,000,000	200		20,000	200	
3,000,000	300		30,000	300	
4,000,000	400		40,000	400	
5,000,000	500		50,000	500	
10,000,000	1000		100,000	1000	
25,000,000	2500		250,000	2500	

NEW YORK

Organization Tax

(Minimum Tax $10.00 plus $30 for filing.)

Par Value— 5c. per $100 on authorized capital stock plus filing fee of $30.

No Par Value— 5c. per share, plus $30 for filing with Secretary of State and County Clerk's fee for recording.

Annual Tax

(Minimum Tax $10.00)

Par Value— Tax computed by State Tax Commission on one of four following bases (whichever results in largest tax):

1. Not less than $10.00.
2. Not less than 4½% of net income.
3. Not less than 1 mill upon each dollar ($1.00 per $1,000) of its issued capital stock.
4. Not less than would be produced by applying a rate of two per centum to a base consisting of the entire net income plus salaries and other compensation paid to all elected or appointed officers, and to any stockholder owning an excess of five per centum of the issued capital stock of the corporation, excepting dividends, and after deducting from the base six thousand dollars and any deficit for the reported year.

If the corporation actually maintains a regular place of business outside of the State of New York and actually employs capital outside the State of New York then the tax is computed upon such part of its issued capital stock at its face value as the amount of its gross assets in the state bears to its gross assets wherever located.

No Par Value— Same as for par value, except that proportion of issued capital stock is taken at not less than actual or market value and not less than $5 per share. The schedule in the table is based on valuation of $100 per share assuming all stock is issued and all property is in the state.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL*		ORG.	ANNUAL*
10,000	10	10	100	10	10
25,000	12.50	25	250	12.50	25
50,000	50	50	500	25	50
75,000	37.50	75	750	37.50	75
100,000	50	100	1,000	50	100
250,000	125	250	2,500	125	250
300,000	150	300	3,000	150	300
400,000	200	400	4,000	200	400
500,000	250	500	5,000	250	500
750,000	375	750	7,500	375	750
1,000,000	500	1000	10,000	500	1000
2,000,000	1000	2000	20,000	1000	2000
3,000,000	1500	3000	30,000	1500	3000
4,000,000	2000	4000	40,000	2000	4000
5,000,000	2500	5000	50,000	2500	5000
10,000,000	5000	10000	100,000	5000	10000
25,000,000	12500	25000	250,000	2500	25000

*Tax computed on one mill basis. See text for other bases.

NORTH CAROLINA

Organization Tax

(Minimum fee $40)

Par Value— Rate for filing certificate is 40c. for each $1,000 of authorized capital.

No Par Value— Value taken as $100 per share.

Annual Tax

(Minimum tax $10)

Par Value— Rate is $1.00 on each $1,000 of determined amount of capital, surplus and undivided profits.

No Par Value— Value taken as $100 per share.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	40	* 10	100	40	* 10
25,000	40	25	250	40	25
50,000	40	50	500	40	50
75,000	40	75	750	40	75
100,000	40	100	1,000	40	100
250,000	100	250	2,500	100	250
300,000	120	300	3,000	120	300
400,000	160	400	4,000	160	400
500,000	200	500	5,000	200	500
750,000	300	750	7,500	300	750
1,000,000	400	1000	10,000	400	1000
2,000,000	800	2000	20,000	800	2000
3,000,000	1200	3000	30,000	1200	3000
4,000,000	1600	4000	40,000	1600	4000
5,000,000	2000	5000	50,000	2000	5000
10,000,000	4000	10000	100,000	4000	10000
25,000,000	10000	25000	250,000	10000	25000

*See Text.

*See Text.

NORTH DAKOTA

Organization Tax

(*Minimum Tax $25.*)

Par Value— Rate is $25 for first $25,000 of capital stock; $50 for capital stock over $25,000 up to $50,000 and the further sum of $5.00 for every additional $10,000 or fraction thereof of capital stock. Certain corporations are excepted. (See C. L. 4509).

No Par Value— There is no provision in the North Dakota statutes for the issue of no par value stock.

Annual Tax

Fixed by State Tax Commission.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100		
25,000	25		250		
50,000	50		500		
75,000	65		750		
100,000	75		1,000		
250,000	150		2,500		
300,000	175		3,000		
400,000	225	Fixed by	4,000		
500,000	275	State Tax	5,000	No provision.	No provision
750,000	400	Commission.	7,500		
1,000,000	525		10,000		
2,000,000	1025		20,000		
3,000,000	1525		30,000		
4,000,000	2025		40,000		
5,000,000	2525		50,000		
10,000,000	5025		100,000		
25,000,000	12525		250,000		

OHIO

Organization Tax

(*Minimum fee $25.*)

Par Value— (a) 10c. per share up to and including 10,000 shares.
(b) 5c. per share in excess of 10,000 shares up to and including 50,000 shares.
(c) 3c. per share in excess of 50,000 shares up to and including 100,000 shares.
(d) 2c. per share in excess of 100,000 shares up to and including 150,000 shares.
(e) 1c. per share in excess of 150,000 shares. Based on authorized shares of stock, with or without par value.

No Par Value— Same as for Par Value.

Annual Tax

(*Minimum $25*).

Par Value— 1/10 of 1% of value of outstanding stock, as determined by Tax Commission.

No Par Value— Same as for Par Value.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL*		ORG.	ANNUAL
10,000		25	100	25	
25,000		25	250	25	
50,000		50	500	50	
75,000		75	750	75	
100,000		100	1,000	100	
250,000		250	2,500	250	
300,000	Tax on Per	300	3,000	300	
400,000	Share Rate*	400	4,000	400	
500,000	Minimum	500	5,000	500	See Text.
750,000	Fee $25.	750	7,500	750	
1,000,000		1000	10,000	1000	
2,000,000		2000	20,000	1500	
3,000,000		3000	30,000	2000	
4,000,000		4000	40,000	2500	
5,000,000		5000	50,000	3000	
10,000,000		10000	100,000	4500	
25,000,000		25000	250,000	6500	

*See Text.

OKLAHOMA

Organization Tax

(*Minimum fee $3.*)

Par Value— Rate is 1/10 of 1% ($1.00 per $1,000) on authorized capital stock. (Religious and charitable organizations flat fee of $2.00).

No Par Value— There is no provision in the Oklahoma statutes for the issue of no par stock.

Annual Tax

(*Minimum fee $25.*)

Par Value— Rate is 50c. for each $1,000 of authorized capital stock or less.

No Par Value— See above.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	25	100		
25,000	25	25	250		
50,000	50	25	500		
75,000	75	37.50	750		
100,000	100	50	1,000		
250,000	250	125	2,500		
300,000	300	150	3,000		
400,000	400	200	4,000		
500,000	500	250	5,000	No Provision.	No Provision.
750,000	750	375	7,500		
1,000,000	1000	500	10,000		
2,000,000	2000	1000	20,000		
3,000,000	3000	1500	30,000		
4,000,000	4000	2000	40,000		
5,000,000	5000	2500	50,000		
10,000,000	10000	5000	100,000		
25,000,000	25000	12500	250,000		

OREGON

Organization Tax

(*Minimum fee $10.*)

Par Value— Rate is based on authorized capital as follows:

Not over $5,000				$10
Over $	5,000	and not over $	10,000	15
"	10,000	" " "	25,000	20
"	25,000	" " "	50,000	25
"	50,000	" " "	100,000	35
"	100,000	" " "	250,000	45
"	250,000	" " "	500,000	60
"	500,000	" " "	1,000,000	75
"	1,000,000			75 for each $1,000,000 or fraction thereof in excess of $1,000,000.

No Par Value— Value is taken as $100 per share.

Annual Tax

(*Minimum fee $10.*)

Par Value— Rate is based on authorized capital stock as follows:

Not over $5,000				$ 10
Over $	5,000	and not over $	10,000	15
"	10,000	" " "	25,000	20
"	25,000	" " "	50,000	30
"	50,000	" " "	100,000	50
"	100,000	" " "	250,000	70
"	250,000	" " "	500,000	100
"	500,000	" " "	1,000,000	125
"	1,000,000	" " "	2,000,000	175
"	2,000,000			200

No Par Value— Value is taken as $100 per share.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	15	15	100	15	15
25,000	20	20	250	20	20
50,000	25	30	500	25	30
75,000	35	50	750	35	50
100,000	35	50	1,000	35	50
250,000	45	70	2,500	45	70
300,000	60	100	3,000	60	100
400,000	60	100	4,000	60	100
500,000	60	100	5,000	60	100
750,000	75	125	7,500	75	125
1,000,000	75	125	10,000	75	125
2,000,000	150	175	20,000	150	175
3,000,000	225	200	30,000	225	200
4,000,000	300	200	40,000	300	200
5,000,000	375	200	50,000	375	200
10,000,000	750	200	100,000	750	200
25,000,000	1875	200	250,000	1875	200

PENNSYLVANIA

Organization Tax

Par Value— 1/5 of 1% on amount of authorized capital stock. This is called a "bonus."

No Par Value— Value determined by taking the capital with which corporation begins business. This is "stated capital." Where there is both par and no-par stock the portion of "stated capital" applicable to no par shares is the excess of stated capital over the aggregate par value of outstanding par shares.

Annual Tax

Par Value— There is no separate tax on franchises but their value is considered when the state tax on capital is assessed. For state tax, rate is 5 mills on each dollar of actual value of whole capital stock of all kinds. This is a tax on property, franchises and earning capacity.

No Par Value— Value is determined as for organization tax.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	20	50	100	* 20	* 50
25,000	50	125	250	50	125
50,000	100	250	500	100	250
75,000	150	375	750	150	375
100,000	200	500	1,000	200	500
250,000	500	1250	2,500	500	1250
300,000	600	1500	3,000	600	1500
400,000	800	2000	4,000	800	2000
500,000	1000	2500	5,000	1000	2500
750,000	1500	3750	7,500	1500	3750
1,000,000	2000	5000	10,000	2000	5000
2,000,000	4000	10000	20,000	4000	10000
3,000,000	6000	15000	30,000	6000	15000
4,000,000	8000	20000	40,000	8000	20000
5,000,000	10000	25000	50,000	10000	25000
10,000,000	20000	50000	100,000	20000	50000
25,000,000	50000	125000	250,000	50000	125000

*See Text.

PHILIPPINE ISLANDS

Organization Tax

(*Minimum fee 25 pesos*)

Par Value— Rate is based on capital stock as follows:

Less than 50,000 pesos				25 pesos
50,000 pesos	but less than	100,000 pesos		50 "
100,000 "	" "	200,000 "		75 "
200,000 "	" "	300,000 "		100 "
300,000 "	" "	400,000 "		125 "
400,000 "	" "	500,000 "		150 "
500,000 "	" "	1,000,000 "		200 "
1,000,000 "	" "	2,000,000 "		250 "
2,000,000 "	or more			300 "

No Par Value— Value taken as 100 pesos per share.

Annual Tax

Tax on gross earnings, as specified in special charters of the corporations. Also income tax of 3% on total net income received from all sources.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN PESOS PAR VALUE	TAX IN PESOS		CAPITAL IN SHARES NO PAR VALUE	TAX IN PESOS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100	25	
25,000	25		250	25	
50,000	50		500	50	
75,000	50		750	50	
100,000	75		1,000	75	
250,000	100		2,500	100	
300,000	125		3,000	125	
400,000	150	Income Tax	4,000	150	Income Tax
500,000	200	See Text.	5,000	200	See Text.
750,000	200		7,500	200	
1,000,000	250		10,000	250	
2,000,000	300		20,000	300	
3,000,000	300		30,000	300	
4,000,000	300		40,000	300	
5,000,000	300		50,000	300	
10,000,000	300		100,000	300	
25,000,000	300		250,000	300	

PORTO RICO

Organization Tax

(*Minimum fee $25; Maximum fee $500.*)

Par Value— Rate is 15c. on each $1,000 of authorized capital stock.

No Par Value— The Porto Rican statutes make no provision for the issue of no par value stock.

Annual Tax

Par Value— No franchise tax, but there is a tax on personal property of corporations, based on present actual value, to be determined by Treasurer of Porto Rico, from sworn declarations of officers.

No Par Value— See above.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100		
25,000	25		250		
50,000	25		500		
75,000	25		750		
100,000	25		1,000		
250,000	37.50		2,500		
300,000	45		3,000		
400,000	60		4,000		
500,000	75	Income Tax	5,000		
750,000	112.50	See Text.	7,500	No Provision.	No Provision.
1,000,000	150		10,000		
2,000,000	300		20,000		
3,000,000	450		30,000		
4,000,000	500		40,000		
5,000,000	500		50,000		
10,000,000	500		100,000		
25,000,000	500		250,000		

RHODE ISLAND

Organization Tax

(*Minimum fee $25.*)

Par Value— Rate is based on authorized capital stock as follows: 40c. for each $1,000 or fraction thereof not in excess of $500,000; 20c. for each $1,000 or fraction over $500,000 and not over $1,000,000; 10c. for each $1,000 or fraction thereof over $1,000,000.

No Par Value— Value taken as $100 per share.

Annual Tax

Tax based on corporate excess.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100	25	
25,000	25		250	25	
50,000	25		500	25	
75,000	30		750	30	
100,000	40		1,000	40	
250,000	100		2,500	100	
300,000	120		3,000	120	
400,000	160	Excess Tax	4,000	160	
500,000	200	See Text.	5,000	200	Excess Tax
750,000	250		7,500	250	
1,000,000	300		10,000	300	
2,000,000	400		20,000	400	
3,000,000	500		30,000	500	
4,000,000	600		40,000	600	
5,000,000	700		50,000	700	
10,000,000	1200		100,000	1200	
25,000,000	2700		250,000	2700	

SOUTH CAROLINA

Organization Tax

(*Minimum fee $5.00*)

Par Value— Rate is based on authorized capital stock as follows:
1 mill per dollar of capital authorized up to and including $100,000; ½ mill per dollar exceeding $100,000 up to and including $1,000,000; ¼ mill per dollar on authorized capital exceeding $1,000,000.

No Par Value— Value taken as $100 per share, unless a different value can be shown, in which case proven value will be taken.
N. B.: Fee for recording declaration, $2.50; for recording return, $2.50.

Annual Tax

(*Minimum Tax $5.*)

Par Value— Rate is 1 mill on each dollar paid to the capital stock—additional license fee of 1 mill on each dollar paid to capital stock.

No Par Value— Same as for Par Value.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL*		ORG.	ANNUAL*
10,000	10	10	100	10	10
25,000	25	25	250	25	25
50,000	50	50	500	50	50
75,000	75	75	750	75	75
100,000	100	100	1,000	100	100
250,000	175	250	2,500	175	250
300,000	200	300	3,000	200	300
400,000	250	400	4,000	250	400
500,000	300	500	5,000	300	500
750,000	425	750	7,500	425	750
1,000,000	550	1000	10,000	550	1000
2,000,000	800	2000	20,000	800	2000
3,000,000	1050	3000	30,000	1050	3000
4,000,000	1300	4000	40,000	1300	4000
5,000,000	1550	5000	50,000	1550	5000
10,000,000	2800	10000	100,000	2800	10000
25,000,000	6550	25000	250,000	6550	25000

*Figures given in column below are for annual tax only. An additional license fee of the same amount is levied, making the amount payable twice the amount of figures given.

SOUTH DAKOTA

Organization Tax

(*Minimum fee $20*)

Par Value— Rate is based on authorized capital stock as follows:

$25,000 or less						$ 20
Over $	25,000	and not over $		100,000		30
"	100,000	"	"	500,000		40
"	500,000	"	"	1,000,000		60
"	1,000,000	"	"	1,500,000		80
"	1,500,000	"	"	2,000,000		100
"	2,000,000	"	"	2,500,000		120
"	2,500,000	"	"	3,000,000		140
"	3,000,000	"	"	3,500,000		160
"	3,500,000	"	"	4,000,000		180
"	4,000,000	"	"	4,500,000		200
"	4,500,000	"	"	5,000,000		220
"	$5,000,000					300

Corporations without capital stock $10.

No Par Value— Value is determined by public officer or board who calls for verified property statement. He will determine value of aliquot part which each share has in assets of the corporation.

Annual Tax

No provision.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	20		100		
25,000	20		250		
50,000	30		500		
75,000	30		750		
100,000	30		1,000		
250,000	40		2,500		
300,000	40		3,000		
400,000	40		4,000		
500,000	40	No Provision.	5,000	See Text.	No Provision
750,000	60		7,500		
1,000,000	60		10,000		
2,000,000	100		20,000		
3,000,000	140		30,000		
4,000,000	180		40,000		
5,000,000	220		50,000		
10,000,000	300		100,000		
25,000,000	300		250,000		

TENNESSEE

Organization Tax

(Filing fee $10.00 plus tax as determined below).

Par Value— Rate is 1/10 of 1% on authorized capital stock, plus $10 filing fee.

No Par Value—Value taken as $100 per share.

Annual Tax

(Minimum Tax $5.)

Par Value— Rate is based on authorized capital stock as follows:

Up to and including $ 25,000	$ 5.00
" " " " 50,000	10.00
" " " " 100,000	20.00
Up to but not including $250,000	30.00
From $250,000 up to but not including $ 500,000	50.00
" 500,000 " " " " 1,000,000	100.00
$1,000,000 and over	150.00

A corporation has the option of adopting the foregoing schedule of rates, or of paying a sum equal to ½ of 1% of gross amount of receipts from intrastate business during preceding calendar year (minimum $25).

No Par Value— Value taken as $100 per share.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL*		ORG.	ANNUAL*
10,000	10	5	100	10	5
25,000	25	5	250	25	5
50,000	50	10	500	50	10
75,000	75	20	750	75	20
100,000	100	20	1,000	100	20
250,000	250	50	2,500	250	50
300,000	300	50	3,000	300	50
400,000	400	50	4,000	400	50
500,000	500	100	5,000	500	100
750,000	750	100	7,500	750	100
1,000,000	1000	150	10,000	1000	150
2,000,000	2000	150	20,000	2000	150
3,000,000	3000	150	30,000	3000	150
4,000,000	4000	150	40,000	4000	150
5,000,000	5000	150	50,000	5000	150
10,000,000	10000	150	100,000	10000	150
25,000,000	25000	150	250,000	25000	150

*Computed on authorized capital basis.

TEXAS

Organization Tax

(Minimum fee $50.00: Maximum $2500.)

Par Value— Rate is based on authorized capital stock. When capital stock is $10,000 or less, fee is $50. When capital stock exceeds $10,000, fee is additional $10 for each additional $10,000 or fraction thereof.

No Par Value— Rate is $50.00 for first $10,000 of actual consideration received for such shares; if such consideration received exceeds $10,000, fee is $10 for each additional $10,000 received. Where part of issue of no par stock has not been paid for, such shares will be assumed to have same value as those sold.

Annual Tax

(Minimum Tax $10.)

Par Value— Rate is 50c. on each $1,000 or fraction thereof of authorized capital stock, unless total amount of paid-in stock plus surplus and undivided profits exceeds authorized capital, in which case the tax will be 50c. on each $1,000 of capital paid in, plus surplus and undivided profits. Where authorized capital exceeds $1,000,000, tax is 50c. for each $1,000 up to and including $1,000,000 and 25c. for each additional $1,000 in excess of $1,000,000. Where corporation does business outside Texas, tax is computed on that part of stock plus surplus and undivided profits as gross receipts in Texas bear to gross receipts from all sources.

No Par Value— Value determined by amount actually received for shares by the corporation.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	50	10	100		
25,000	70	12.50	250		
50,000	90	25	500		
75,000	120	37.50	750		
100,000	140	50	1,000		
250,000	290	125	2,500		
300,000	340	150	3,000		
400,000	440	200	4,000		
500,000	540	250	5,000	See Text.	See Text.
750,000	790	375	7,500		
1,000,000	1040	500	10,000		
2,000,000	2040	750	20,000		
3,000,000	2500	1000	30,000		
4,000,000	2500	1250	40,000		
5,000,000	2500	1500	50,000		
10,000,000	2500	2750	100,000		
25,000,000	2500	6500	250,000		

UTAH

Organization Tax

Par Value— Rate is 25c. on each $1,000 of authorized capital stock. Issuing certificate of incorporation, $5.00. Filing articles of incorporation, $2.50.

No Par Value—Value taken as $100 per share.

Annual Tax

(Minimum Tax $15.00)

Par Value— Rate is based on proportionate value of issued and outstanding shares represented by property owned and business done in Utah, determined by ratio which proportion of total property owned and business done in Utah bears to entire property owned and business done during preceding year, in accordance with following schedule:

$10,000 or less				$ 15
Over $	10,000	and not over $	25,000	20
"	25,000	" " "	50,000	25
"	50,000	" " "	75,000	30
"	75,000	" " "	100,000	35
"	100,000	" " "	150,000	45
"	150,000	" " "	200,000	60
"	200,000	" " "	250,000	70
"	250,000	" " "	300,000	80
"	300,000	" " "	400,000	90
"	400,000	" " "	500,000	100
"	500,000	" " "	600,000	120
"	600,000	" " "	700,000	140
"	700,000	" " "	800,000	175
"	800,000	" " "	900,000	200
"	900,000	" " "	1,000,000	250
"	1,000,000	" " "	1,500,000	300
"	1,500,000	" " "	2,000,000	350
"	2,000,000	" " "	3,000,000	450
"	3,000,000	" " "	4,000,000	600
"	4,000,000			800

No Par Value— Value taken as $100 per share.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	2.50	15	100	2.50	15
25,000	6.25	20	250	6.25	20
50,000	12.50	25	500	12.50	25
75,000	18.75	30	750	18.75	30
100,000	25	35	1,000	25	35
250,000	62.50	70	2,500	62.50	70
300,000	75	80	3,000	75	80
400,000	100	90	4,000	100	90
500,000	125	100	5,000	125	100
750,000	187.50	175	7,500	187.50	175
1,000,000	250	250	10,000	250	250
2,000,000	500	350	20,000	500	350
3,000,000	750	450	30,000	750	450
4,000,000	1000	600	40,000	1000	600
5,000,000	1250	800	50,000	1250	800
10,000,000	2500	800	100,000	2500	800
25,000,000	6250	800	250,000	6250	800

VERMONT

Organization Tax

(Minimum fee $10.)

Par Value— Rate is based on capital stock as follows:

Not over $5,000				$ 10.00
Over $	5,000	and not over $	10,000	25.00
"	10,000	" " "	50,000	50.00
"	50,000	" " "	200,000	100.00
"	200,000	" " "	500,000	200.00
"	500,000	" " "	1,000,000	300.00
"	1,000,000	" " "	2,000,000	500.00

and $100 for each additional $1,000,000 or fraction thereof.

No Par Value— Value taken as $100 per share.

Annual Tax

(Minimum tax $10; maximum tax $100.)

Par Value— Tax is $10 on capital stock or deposit of $50,000 or less and $5.00 for each $50,000 or fraction thereof in excess of $50,000.

No Par Value— Value taken as $100 per share.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25	10	100	25	10
25,000	50	10	250	50	10
50,000	50	10	500	50	10
75,000	100	15	750	100	15
100,000	100	15	1,000	100	15
250,000	200	30	2,500	200	30
300,000	200	35	3,000	200	35
400,000	200	45	4,000	200	45
500,000	200	55	5,000	200	55
750,000	300	80	7,500	300	80
1,000,000	300	100	10,000	300	100
2,000,000	500	100	20,000	500	100
3,000,000	600	100	30,000	600	100
4,000,000	700	100	40,000	700	100
5,000,000	800	100	50,000	800	100
10,000,000	1300	100	100,000	1300	100
25,000,000	2800	100	250,000	2800	100

VIRGINIA

Organization Tax

(Minimum fee $10 plus filing fees.)

Par Value— Rate is based on authorized capital stock: for maximum authorized capital of $50,000, fee is $10; for company whose maximum authorized capital is over $50,000 and under $3,000,000, 20c. for each $1,000 or fraction; over $3,000,000, fee is $600. Additional filing fees about $8.

No Par Value— Value is taken as $100 per share.

Annual Tax

(Minimum Tax $10.)

Par Value— Rate is based on authorized capital stock as follows:

Not over $25,000			$ 10
Over $ 25,000	and not over $	50,000	20
" 50,000	" " "	100,000	40
" 100,000	" " "	300,000	60
" 300,000	" " "	500,000	100
" 500,000	" " "	1,000,000	200

For all in excess of $1,000,000 and not greater than $50,000,000, an additional $10 per $100,000 in excess of $1,000,000; for all in excess of $50,000,000 and not greater than $100,000,000, an additional $75.00 for each $1,000,000 in excess of $50,000,000; for all in excess of $100,000,000 and not greater than $150,000,000 an additional $50 for each $1,000,000 in excess of $100,000,000; for all in excess of $150,000,000 and not greater than $300,000,000, an additional $25 for each $1,000,000 in excess of $150,000,000; and for all in excess of $300,000,000 an additional $10 for each $1,000,000 in excess of $300,000,000.

No Par Value— Value taken as $100 per share.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	10	10	100	10	10
25,000	10	10	250	10	10
50,000	10	20	500	10	20
75,000	15	40	750	15	40
100,000	20	40	1,000	20	40
250,000	50	60	2,500	50	60
300,000	60	60	3,000	60	60
400,000	80	100	4,000	80	100
500,000	100	100	5,000	100	100
750,000	150	200	7,500	150	200
1,000,000	200	200	10,000	200	200
2,000,000	400	300	20,000	400	300
3,000,000	600	400	30,000	600	400
4,000,000	600	500	40,000	600	500
5,000,000	600	600	50,000	600	600
10,000,000	600	1100	100,000	600	1100
25,000,000	600	2600	250,000	600	2600

WASHINGTON

Organization Tax

(Minimum fee $25.00; maximum fee $2500.00)

Par Value— Rate is based on authorized capital stock: $25.00 for first $50,000 or less; 1/20 of 1% additional on all amounts in excess of $50,000 and not exceeding $1,000,000; 1/50 of 1% additional on all amounts in excess of $1,000,000 and not exceeding $4,000,000; and 1/100 of 1% additional on all amounts in excess of $4,000,000.

No Par Value— Value is based on value of assets received for the stock, based on affidavit of one of incorporators.

Annual Tax

(Minimum tax $15.00; maximum $1250.)

Par Value— Rate is based on authorized capital stock: $15.00 for first $50,000 or less; 1/40 of 1% additional on all amounts in excess of $50,000 and not exceeding $1,000,000; 1/100 of 1% additional on all amounts in excess of $1,000,000 and not exceeding $4,000,000; and 1/200 of 1% additional on all amounts in excess of $4,000,000.

No Par Value— Value determined in same manner as for organization tax.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25	15	100		
25,000	25	15	250		
50,000	25	15	500		
75,000	37.50	21.25	750		
100,000	50	27.50	1,000		
250,000	125	65	2,500		
300,000	150	77.50	3,000		
400,000	200	102.50	4,000		
500,000	250	127.50	5,000	See Text.	See Text.
750,000	375	190	7,500		
1,000,000	500	252.50	10,000		
2,000,000	700	352.50	20,000		
3,000,000	900	452.50	30,000		
4,000,000	1100	552.50	40,000		
5,000,000	1200	602.50	50,000		
10,000,000	1700	852.50	100,000		
25,000,000	2500	1250	250,000		

WEST VIRGINIA

Organization Tax

(*Minimum fees, $11.50*)

Par Value— At time of incorporation, annual license tax for first year (or portion thereof) must be paid. See schedule below, under Annual Tax. In addition, for certificate of incorporation, $10.00, County Clerk's fee for recording certificate, $1.50 and 3c. additional per 30 words over 1000 words.

No Par Value— Same as for Par Value. See below.

Annual Tax

(*Minimum tax $20.*)

Par Value— Rate is based on authorized capital stock as follows:

$5,000 or less			$ 20
Over $	5,000 and not over $	10,000	30
"	10,000 " " "	25,000	40
"	25,000 " " "	50,000	50
"	50,000 " " "	75,000	80
"	75,000 " " "	100,000	100
"	100,000 " " "	125,000	110
"	125,000 " " "	150,000	120
"	150,000 " " "	175,000	140
"	175,000 " " "	200,000	150
"	200,000 " " "	1,000,000	180

and an additional 20c. on each $1,000 or fraction thereof in excess of $200,000. If more than $1,000,000—$340 and an additional 15c. on each $1,000 or fraction thereof in excess of $1,000,000.

No Par Value— Value is taken as $25.00 per share.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	30	30	100	20	20
25,000	40	40	250	30	30
50,000	50	50	500	40	40
75,000	80	80	750	40	40
100,000	100	100	1,000	40	40
250,000	190	190	2,500	80	80
300,000	200	200	3,000	80	80
400,000	220	220	4,000	100	100
500,000	240	240	5,000	110	110
750,000	290	290	7,500	150	150
1,000,000	340	340	10,000	190	190
2,000,000	490	490	20,000	240	240
3,000,000	640	640	30,000	290	290
4,000,000	790	790	40,000	340	340
5,000,000	940	940	50,000	377.50	377.50
10,000,000	1690	1690	100,000	565.00	565.00
25,000,000	3940	3940	250,000	1127.50	1127.50

WISCONSIN

Organization Tax

(*Minimum fee $25.*)

Par Value— $25.00 for filing the articles of incorporation and $1.00 for each $1,000 of authorized capital stock in excess of $25,000.

No Par Value— $25.00 for filing articles and 5c. per share.

Annual Tax

No provision.

(See also Table of State Corporation Income Taxes.)

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25		100	30	
25,000	25		250	37.50	
50,000	50		500	50	
75,000	75		750	62.50	
100,000	100		1,000	75	
250,000	250		2,500	150	
300,000	300		3,000	175	
400,000	400		4,000	225	
500,000	500	No Provision	5,000	275	No Provision
750,000	750	See Text.	7,500	400	See Text.
1,000,000	1000		10,000	525	
2,000,000	2000		20,000	1025	
3,000,000	3000		30,000	1525	
4,000,000	4000		40,000	2025	
5,000,000	5000		50,000	2525	
10,000,000	10000		100,000	5025	
25,000,000	25000		250,000	12525	

WYOMING

Organization Tax

(Minimum fee $25.00)

Par Value— Filing fee is $25.00 if capital stock is not more than $50,000; $50.00 if capital is more than $50,000 and not more than $100,000; if capital stock is more than $100,000, fee is $50 for first $100,000 and in addition 30c. for each $1,000 in excess of $100,000. If corporation not organized for profit and has no capital stock, fee is $10.00.

No Par Value— Value taken as $1.00 per share.

Annual Tax

(Minimum tax $5.00)

Par Value— Rate is based on proportion of capital, property and assets employed in Wyoming. If such portion of capital is $50,000 or less, fee is $5.00; if such portion exceeds $50,000 and does not exceed $100,000, fee is $10.00; if such portion exceeds $100,000 but does not exceed $500,000, fee is $25.00; if such portion exceeds $500,000 but does not exceed $1,000,000, fee is $50.00; if such portion exceeds $1,000,000, fee is $50.00 for every $1,000,000 or fraction thereof.

No Par Value— Value taken as $1.00 per share.

Tax Rate

CAPITAL IN DOLLARS PAR VALUE	TAX IN DOLLARS		CAPITAL IN SHARES NO PAR VALUE	TAX IN DOLLARS	
	ORG.	ANNUAL		ORG.	ANNUAL
10,000	25	5	100	25	5
25,000	25	5	250	25	5
50,000	25	5	500	25	5
75,000	50	10	750	25	5
100,000	50	10	1,000	25	5
250,000	95	25	2,500	25	5
300,000	110	25	3,000	25	5
400,000	140	25	4,000	25	5
500,000	170	25	5,000	25	5
750,000	245	50	7,500	25	5
1,000,000	320	50	10,000	25	5
2,000,000	620	100	20,000	25	5
3,000,000	920	150	30,000	25	5
4,000,000	1220	200	40,000	25	5
5,000,000	1520	250	50,000	25	5
10,000,000	3020	500	100,000	50	10
25,000,000	7520	1250	250,000	95	25

SECTION FIVE

SPECIMEN CHARTERS, BY-LAWS AND MINUTES

CHARTER PROVISIONS AFFECTING ACCOUNTING PROCEDURE

It is probable that a majority of accountants and even a considerable number of attorneys have not realized the possible extent of the influence of charter provisions upon the financial accounts. At the risk of over-extending the illustrations of charter material, therefore, it is believed that the inclusion of the extract from the charter of a large corporation having many branches, reproduced here, will be justified by its concrete exemplification value. The exhibit, in addition to its accounting applications, represents an important device in branch management, and should be considered in connection with the discussion of that subject in Section Three, Chapter XXV as well as the discussion of Charters in Section Two, Chapter III.

It should be observed that subject to the general law and the special provisions of state corporation Acts, the relative rights of "classified" stockholders are, in contra-distinction to the rights of the "unclassified" stockholders, a matter of agreement. It is true that holders of "classified" shares take the stock subject to the limitations and conditions contained in the charter but those limitations and conditions are not imposed by the corporation laws, but by the incorporators. Once embodied in the charter, however, such provisions can be changed only in the manner prescribed by law. It is important, therefore, first, to see that such conditions and limitations are permitted under the act and second, to pre-determine their suitability to future circumstances, thereby avoiding expense, delays, and even disastrous frustration of intelligently constructed programs, by unreasonable and stubborn deadlocks.

CLASSIFIED STOCK PROVISIONS OF CHARTER OF LUMBER CORPORATION WHOSE BRANCH MANAGERS ARE STOCKHOLDERS

FOURTH.—The amount of the total authorized capital stock of this Corporation is Two Million Dollars ($2,000,000) divided

into twenty thousand (20,000) shares, all having a par value of one hundred dollars ($100) per share.

Of the said total authorized capital stock five thousand (5,000) shares shall be known as "classified stock" and fifteen thousand (15,000) shares shall be known as "unclassified stock."

The amount of the capital stock with which the corporation will commence is One Thousand Dollars ($1,000) being ten (10) shares of unclassified stock of the par value of One Hundred Dollars ($100) per share.

FIFTH.—The classified stock of this corporation shall be divided into classes. Each class shall be designated by a distinct number and by name or designation indicating the locality of the branch or branches or other investments to establish, purchase, operate or maintain which, the consideration received for the issue of such stock shall be used. In the event of a classified stock dividend based on the surplus of a branch or yard or investment being converted into capital for the use of one or more branches or yards, such capital shall be deemed the "consideration received" for such issuance of stock within the meaning of this paragraph.

The word "branch" as used in these Articles of Incorporation means any yard, or yards or any manufacturing or wholesaling department or group of same or any other combination of departments or investments of this corporation, under the same management, which are treated for accounting purposes as a separate unit.

(2) The holders of each class of classified stock shall be entitled, in preference to the holders of all other stock, whether classified or unclassified, to have credited each year to the book value of their shares on the books of the corporation the same proportion of the net profits earned by the corporation, through the operations of the branch against which such class of classified stock shall have been issued, as the book value of such classified stock bears to the total branch capital in such branch; provided, that in case the classified stockholder has paid more than par for his stock, the proper surplus shall be set up on the books of the company and such owners shall have credited each year to the book value of their shares on the books of the corporation the same proportion of the net profits earned by the corporation through the operation of the branch against which such class of classified stock shall have been issued in the ratio that the book value of such stock bears to the total capital or investment in such branch.

(a) All dividends, whether stock or cash, declared and distributed at any time by the Board of Directors out of current profits or accumulated surplus or credited to the book value of the holders of each class of classified stock, shall be paid only to the holders of such class of classified stock in proportion to the holdings in such class. The classified stockholders shall be entitled to no other or further dividend.

When the corporation has a surplus, dividends may be declared at any time on one or more classes of the classified stock (or upon the unclassified stock) to be paid out of the surplus credited on the books of the corporation to each respective class of stock, and such dividends may be declared without the declaration or payment of dividends on the remaining stock or any classes thereof.

(b) The term "branch capital" as used in these Articles means the consideration, (or in the case of a stock dividend the amount of surplus converted into capital), for which the classified stock of any branch shall have been issued, plus the amount of the moneys or assets set apart out of the general assets of the corporation for the opening, or acquisition, maintenance and operation of said branch, together with all undistributed profits attaching to said classified stock, and said part of the general assets set apart for said branch and as set up upon the books of such branch as its invested capital; provided, however, that in paragraph (3) only of this Article, the word "branch capital" shall include only the consideration for which the classified stock of any branch shall have been issued, plus the amount of moneys or assets set apart at the same time out of the general assets of the corporation for the opening or acquisition, maintenance and operation of said branch, and as set up upon the books of such branch as its original invested capital.

(c) The term "operation of a branch" as used in these Articles shall include any use incidental to the business of the corporation or of any branch thereof to which the moneys or assets invested in or set apart for said branch or acquired by said branch as surplus shall be put.

(3) In every case—(a) Where the branch capital in any branch has become impaired through losses, or (b) Where any branch or branches has or have debts and obligations over and above its or their assets, all the classified stock owned by each stockholder in said losing or indebted branch or branches shall be subject to special assessment to restore its proper portion of said branch or branch's capital or pay its or their proper proportion or proportions of said indebtedness in the discretion of the Board of Directors. In all cases where at the expiration of the period provided in the notice herein, any classified stockholder or stockholders, in such losing or indebted branch or branches fails to pay in and by the method prescribed in this paragraph (3), such proportion of the amount necessary to restore to original amount the branch capital of said branch or branches, or to pay such proportion of the debts and obligations of such branch or branches as the par value of his or their shares in such branch or branches, together with the original surplus attaching thereto bears to the total branch capital, then the portion of his or their share of such assessment which the said classified stockholder or stockholders fail to pay by the expiration of the said notice shall be prorated among all the remaining classified stockholders in such branch or branches and the general funds of the corporation in accord-

ance with their respective investments of capital in such branch or branches and the amount of assessment on the classified stock of such remaining classified stockholders in such branch or branches shall be limited to such prorated amount.

Such assessment shall be paid to the corporation by each classified stockholder upon whose stock it is levied, within thirty days after written notice is mailed to him at his last known post office address. When any classified stockholder fails to pay any assessment at the time such payment is due, the Company may then sell, by the same method as set forth in Article VII of these Articles at private or public sale, so much of the classified stock of said stockholders as will pay all assessments then due from him with interest and all incidental expenses, and shall transfer the shares so sold to the purchaser thereof who shall be entitled to a certificate therefor, with the same force and effect as though the certificate of the defaulting stockholder had been delivered and cancelled, and the defaulting stockholder shall have no further rights in said stock so sold, except that upon surrender of his certificates of classified stock so sold as aforesaid, duly endorsed for transfer, he shall be entitled to be paid any amount received by the corporation on said sale in excess of his liability under the special assessment levied plus the interest, costs and expenses of selling said stock.

(4) The Board of Directors may cause to be accumulated all or any part of the portion of the net earnings of any branch with which the classified stockholders are entitled to be credited as above set forth in paragraph (2) of this Article, for use in the furtherance of the business of the corporation, and may convert all or any part of said net earnings into capital and declare and distribute stock dividends of classified stock of the same or any other class, to the holders of the classified stock of the branch so converted, ratably according to their holdings of stock in said class.

(5) In case any branch has a surplus to its credit in the general funds of the corporation which such branch, in the opinion of the majority of the classified stockholders of such branch does not need in its branch capital, a majority of the classified stockholders of such branch shall have the right to call for a reduction of the branch capital by the amount of such surplus or any part thereof and in such event the Board of Directors shall within 90 days after written notice by said majority, declare a dividend upon such classified stock in an amount necessary to distribute to the classified stockholders thereof, their proper proportion of such reduction of surplus.

(6) In the event the Board of Directors decide that it is necessary or advisable to reduce the branch capital of any branch, and make such reduction, they may demand that sufficient amount of the classified stock in such branch be delivered to it by the owners thereof in proportion to their holdings of the same for sale in accordance with the provisions of paragraph 2 Article VII hereof so that the

percentage of classified stock to the total branch capital shall remain the same as before such reduction was made, and the Board of Directors shall at their option either pay the classified stockholders the value of such stock in cash or convert it into some other class of stock classified or unclassified, and in case of conversion into other stock same to be made in accordance with the provisions of Article VI, hereof.

(7) In the event the Board of Directors decide it is necessary or advisable to increase the branch capital at any branch and make such increase, the classified stockholders shall have the right under reasonable regulations made by the Board of Directors to increase their stock in such proportion that they would retain the same proportion of ownership in such branch as they held before such increase of capital was made, and the price they are to pay shall be the book value of their classified stock in such branch immediately prior to such increase of investment.

SIXTH.—At the option of the Board of Directors and with the consent of the owners thereof, and also as hereinafter provided, all classes of stock, both classified and unclassified, are interchangeable. In all cases such exchange of stock shall be made in an equitable manner, so that the book values of any number of shares exchanged for any number of shares of any other series or class shall be equal, provided that no fraction of shares shall be issued and that any fractional difference shall be paid by the corporation in cash in lieu of any fractional share.

SEVENTH.—(1) The subscription for and ownership of all classified stock in this corporation shall be made and taken upon the condition that the purchaser, owner or holder thereof, desiring to sell the same, shall first deliver the same to the Board of Directors for sale, upon receipt of which, the Board of Directors shall fix the price to be paid for said stock, which, at the option of the Board shall be the book value of said shares of stock as established by the accounting methods employed by said corporation at its last inventory period, together with interest at the rate of 8% per annum, up to and including the time at which sale of same is made, or may be determined by taking an inventory of the "branch" against which such stock was issued, within thirty days from date of delivery of such stock and determining its value at the date of such inventory in accordance with the regular accounting methods of the corporation; good will or other items not regularly listed on the books of the corporation as assets or liabilities shall not be taken into consideration in fixing such value.

The Board of Directors shall have the right within 90 days after delivery of the stock to it, for sale, either to purchase said stock at said price out of the surplus fund forming a part of the book value of the unclassified stock, or to sell the same at said price to such person or persons as are entitled to own and hold classified stock under

these Articles, or to convert same into unclassified stock and sell same at said price.

If, at the end of 90 days after the delivery of the stock to the Board of Directors for sale, the corporation fails either to purchase said stock or to sell the same, the stockholder offering such classified stock for sale shall be free to make such sale of his stock as he sees fit.

(2) If any holder of classified stock, except by reason of death, within 10 years from the date of the commencement of his last continuous employment with their corporation or any of its subsidiaries, voluntarily, or by means of his discharge for cause by the Board of Directors, ceases to be actively engaged by, or in the affairs of the corporation, or at any time becomes insolvent, or a bankrupt, or if his stock at any time comes into the hands of any pledgee, assignee, receiver, trustee or other third party, the Board of Directors may demand that the outstanding certificates representing his shares of classified stock be forthwith delivered to it for sale as in this Article provided. Such demand shall be made by resolution to that effect passed by the Board of Directors and a copy thereof mailed to such stockholder, or any party claiming under him, at his last known address. If the said certificates properly endorsed in blank for transfer shall not be delivered to the corporation within thirty days after said mailing, said stockholder or any person claiming under him shall be entitled to no further dividends thereon, and all his rights and that of any person claiming under him, as a classified stockholder, except the right to receive the sale price, fixed as hereinabove provided in this Article, shall thereupon cease; and thereafter new certificates may be issued in the place and stead of those not so delivered, to the same extent and effect as though they had been delivered and cancelled.

In the event that said classified stock is purchased by the corporation, it may either be retired or resold and reissued as provided in Article XII, hereof.

These provisions shall be binding upon the successors, heirs, administrators, executors and assigns of the holders of classified stock of this corporation.

EIGHTH.—The unclassified common stock shall not be assessable for any purpose.

The holders of the unclassified stock of this corporation shall be entitled (subject to the rights of the holders of classified stock as set forth in these Articles) to receive all dividends, whether stock, or cash, declared and distributed out of the profits earned by the corporation, except earnings or profits applied to classified stock.

NINTH.—The subscriptions for and ownership of all unclassified stock in this corporation are made and taken upon the condition that the purchaser, owner or holder thereof desiring to sell the same, shall first deliver the same to the corporation for sale, who shall fix

the price to be paid to said stockholder for said stock by any one of the following methods:

(a) By taking the book value of said shares of stock as established by the accounting methods employed by said corporation at its last inventory period together with interest at rate of 8% per annum from such inventory period until date of sale, or

(b) By taking inventories to be commenced within thirty days and completed within ninety days from date of delivery of such stock and determining its value in accordance with the regular accounting methods of the corporation, or

(c) In the event the stock is tendered to the corporation at a date nearer to the next regular accounting period than to the previous accounting period the Board of Directors may at its election defer setting the price until the book value has been established at the next regular accounting period and in event of their adopting this method (c), it shall be deemed that the stock was tendered them for sale as of the date at which said book value was established.

The book value as above arrived at shall be increased or decreased by the Board of Directors by taking into account, appreciation of assets or the existence of intangible assets, not written into the books, and by adjusting excessive or inadequate reserves, and by taking into account accrued or contingent or threatened liabilities, and the determination of the Board of Directors in making such increases and/or decreases shall be final.

As soon as the price of said stock has been fixed, and the stockholder has been notified of such fact the corporation acting through its Board of Directors shall have the right within the sixty days next succeeding, but not later than ninety (90) days after delivery of the stock to the Board of Directors for sale, either to purchase said stock at said price out of the surplus funds, forming a part of the book value of the unclassified common stock, or to sell same at said price to any person or persons.

If, at the end of said ninety (90) days after the delivery of the stock to the Board of Directors for sale, the corporation fails either to purchase said stock or to sell the same, it shall upon demand redeliver the same to the stockholder offering such unclassified common stock for sale, who shall then be free to make such sale of his stock as he sees fit.

This restriction upon the sale of the unclassified stock may be amended, modified, or abrogated by a vote of the holders of a majority of all the shares of stock of the corporation, classified and unclassified, at a regular meeting or at a special meeting of such stockholders called for such purpose in accordance with the provisions of the by-laws upon ten (10) days' written notice.

In the event that said unclassified stock is purchased by the corporation, it may either be retired or reissued and resold as provided in Article XII hereof.

These provisions shall be binding upon the successors, heirs, administrators, executors, or assigns of the holders of unclassified stock of this corporation.

TENTH.—Classified stock shall be issued to such branch managers or other employees as the Board of Directors may designate, in order to preserve the benefits of the Company's plan for individual responsibility in the management and conduct of branches and for the participation of the active managers and other employees in the profits and in the assumption of losses of the branches with which they are personally identified and in which they are financially interested, and may be issued to any other parties to whom the Board of Directors see fit to issue it.

In the event of the death of any holder of classified stock who has been in the continuous employment of the corporation or any of its subsidiaries for ten (10) years last past or longer, his stock shall be, at the option of the Board of Directors, converted into unclassified stock of the corporation in accordance with the provisions of Article VI hereof and in the event such employee has been in the continuous employment of the corporation or any of its subsidiaries for less than ten years, the corporation shall have the option of either calling in said stock and selling same in accordance with the provisions of Article VII hereto, or converting it into the unclassified stock of the corporation.

ELEVENTH.—(1) The Board of Directors may at any time, if it deems it to be for the best interests of the corporation, discontinue any branch; thereupon it may in its discretion, (a) transfer the assets of said branch to a new branch about to be opened and in such event the classified stockholders of the discontinued branch shall surrender their certificates of stock in the class of stock issues for said discontinued branch, duly endorsed in blank, and shall receive in exchange therefor certificates of the same book value of the class of stock issued for the opening, maintenance and operation of the new branch; or (b) may cause the assets of said branch to be sold at the best prices obtainable at such times and places in such manner and upon such notice as it shall deem best and shall pay and discharge all debts and obligations of said branch and all expenses of closing out same, out of the proceeds of said sale or sales or other funds of said branch; as soon thereafter as the amount of the corporation's surplus assets shall be such that it may lawfully do so, the corporation shall purchase the said class of stock, from the holder of the class of classified stock issued for said branch discontinued, by payment to the holders thereof of a sum equivalent to such proportion of the net amount realized upon the sale or other disposition of the assets of branch, and of all other funds remaining after discharge of its obligations, as the par value of capital stock of said class owned by said classified stockholders together with its surplus bears to the total branch capital of said branch, and said classified stockholders shall surrender their certificates of stock to the corporation duly endorsed in blank for transfer.

(2) No classified stock of the corporation purchased by it in accordance with the provisions of this Article shall thereafter be sold by the corporation except for such consideration as the corporation would be required by law and by the provisions of these Articles to receive therefor if such sale were an original issue. Upon the sale by the corporation of any classified stock so purchased by it, the Board of Directors may, by resolution, change the class thereof and cause new certificates to be issued bearing the designation of such new class, with the same effect as if the classified stock so sold had been originally issued in such new class.

TWELFTH.—Upon any dissolution, liquidation, sale or other distribution of the assets of the corporation as a whole after the payment of the obligations of the corporation, all classified stockholders shall receive the same percentage of the balance of such proceeds and/or assets in kind as his classified stock, together with its surplus, bears to the entire capital stock and surplus of the corporation as shall be determined by the Board of Directors.

THIRTEENTH.—Upon any issue for money, or other consideration, of any stock of the corporation, or upon the purchase of any stock by the corporation, whether authorized by these Articles of Incorporation or by subsequent increase of capital, and whether classified or unclassified stock, no stockholder shall, except as provided in paragraph (7) of Article V hereof, be entitled of right to subscribe for, purchase or receive any proportionate or other share of the stock so to be issued; but the Board of Directors of the corporation may dispose of all such stock issued or so purchased to such party or parties and upon such terms generally as it may see fit, and in the case of the purchase of classified common stock may change the class thereof upon such resale.

CHARTER—NEW YORK CORPORATION

The incorporation procedure of New York provides that the names of directors who are to act until the first annual meeting of stockholders must be stated in the charter (Section Seven). The specific objects are stated in detail and the powers are comprehensive for a corporation of this type including the power to borrow and mortgage (Section Two). In Section Ten, pursuant to the corporation laws, the Board of Directors is given power to determine the use and disposition of any surplus or net profits over and above the capital stock paid in, and, in its discretion, may use accumulated profits in acquiring bonds of the corporation or shares of its own capital stock which may be resold unless retired in the manner provided by law for the purpose of decreasing the corporation's capital stock.

CERTIFICATE OF INCORPORATION
OF
BROWN CATERING SERVICE, INC.

Pursuant to Article
Two of the
Stock Corporation Law

WE, THE UNDERSIGNED, desiring to form a stock corporation pursuant to the provisions of Article Two of the Stock Corporation Law of the State of New York, DO HEREBY CERTIFY as follows:

FIRST—That the name of the corporation is Brown Catering Service, Inc.

SECOND—That the purposes for which it is to be formed are to do any and all of the things hereinafter set forth to the same extent as natural persons might or could do in any part of the world; namely,

To introduce, erect, provide, maintain, operate, lease, purchase, acquire, hold, enjoy and dispose of by sale, lease or otherwise in any town, city or borough in the United States, coffee houses, restaurants, inns, eating houses, taverns or places of entertainment and refreshment with power to contract with towns, cities, or boroughs, or any municipal corporation or other corporation or body politic, or any person or persons, to make and execute any and all agreements for the rental of such coffee houses, restaurants, inns, eating houses, taverns or places of entertainment and refreshment in said United States.

To construct, own, purchase, maintain, operate, sell, lease, or dispose of any such property, and to have power to purchase and hold in fee simple or otherwise such real estate as may be necessary for carrying on the business of the said corporation, and for the full and complete enjoyment of said corporation, the said company is hereby authorized to issue from time to time bonds with or without coupons at a rate of interest not exceeding that allowed by the laws of New York, secured in such manner as the Board of Directors may authorize and for such amounts and upon such conditions as the Board of Directors of said company shall prescribe, and said corporation may contract and agree with the individuals and authorities aforesaid for the guaranteeing or securing the payment of said bonds, principal and interest or either or both.

The object and purpose of said corporation is to provide and

maintain coffee houses, restaurants, inns, eating houses, taverns or places of entertainment and refreshment where the sale, use or possession of alcoholic, vinous, spirituous or malt liquors as a beverage shall be prohibited.

To purchase, lease or otherwise acquire and hold land, buildings, tenements, factories for the offices, workshops, and storerooms of the Company, and to lease, mortgage and convey such real estate in such manner as may appear for the best interests of the Company.

To borrow money for its corporate purposes, and to make, accept, endorse, execute and issue promissory notes, bills of exchange, bonds, debentures or other obligations from time to time, for the purchase of property or for any purposes, in or about the business of the Company, subject to the provisions of the Stock Corporation Law of New York, and, if deemed proper, to secure the payment of any such obligations by mortgage, pledge, deed of trust or otherwise.

Subject to the provisions of the Stock Corporation Law of the State of New York, to purchase, acquire, subscribe for, hold, sell, exchange, issue on commission, pledge, hypothecate, or otherwise dispose of or deal in, the stocks, notes, bonds, debentures, income certificates or other evidences of indebtedness and obligations of any private corporations, and mortgages upon real or personal property, and all trust, participation or other certificates of, or receipts evidencing interest in any such securities; and to exercise all the rights, powers and privileges of ownership, including the right to vote thereon for any and all purposes.

To do all and everything necessary, suitable and proper for the accomplishment of any of the purposes or the attainment of any of the objects or the furtherance of any of the powers hereinbefore set forth, either as one or associated with other corporations, firms, or individuals, and to do any other act or acts, thing or things, incidental or pertaining to, or growing out of, or connected with the aforesaid business, or powers, or any part or parts thereof, provided the same be not inconsistent with the law under which this corporation is organized.

The foregoing enumeration of specific powers shall not be deemed to limit or restrict in any manner the general powers of the corporation, and the enjoyment and exercise thereof, as conferred by the laws of the State of New York upon corporations organized under the provisions of the Stock Corporation Law.

THIRD—That the amount of the capital stock shall be One Million ($1,000,000) Dollars consisting of Ten Thousand (10,000) shares of common stock of the par value of One Hundred ($100) Dollars each.

FOURTH—That the office of the corporation shall be located in the borough of Queens, in the County of Queens, City and State of New York.

FIFTH—That the duration of the corporation is to be perpetual.

SIXTH—That the number of the directors shall be nine, who shall be classified with respect to the time for which they shall severally hold office, into three classes to be known as Classes "A," "B" and "C." Class "A" shall consist of three Directors, each to hold office until the fourth annual election; Class "B" shall consist of three Directors, each to hold office until the second annual election; and Class "C" shall consist of three Directors, each to hold office until the third annual election. At each annual meeting of stockholders, the successors to the class of Directors whose terms shall expire in that year shall be elected to hold office for the term of three years, so that the term of office of one class of Directors shall expire in each year. Each Director shall serve for the term for which he shall have been elected and until his successor shall have been duly chosn. The Directors shall be chosen by a plurality of the votes of the stockholders present at each annual meeting and entitled to vote for the same. Directors need not be stockholders.

SEVENTH—That the names and post office addresses of the directors, until the first annual meeting of the stockholders, are as follows:

NAMES	POST OFFICE ADDRESSES
Ira L. Jones,	11 West 42nd Street, New York City
James Carle,	11 West 42nd Street, New York City
Thomas Crone,	11 West 42nd Street, New York City
Edward T. Phillips	21 E. 31st Street, New York City
Frank R. Jackson	16 W. 40th Street, New York City
George M. Rice	23 Fourth Avenue, New York City
Samuel A. Gray	10 Park Row, New York City
Clinton O. Riggs	142 Fifth Ave., New York City
William F. Brown	142 Fifth Ave., New York City

EIGHTH—That the names and post office addresses of each subscriber to this certificate and the number of shares of stock which each agrees to take are as follows:

NAMES	POST OFFICE ADDRESSES	NUMBER OF SHARES
Ira L. Jones,	11 West 42nd Street, New York City	One
James Carle,	11 West 42nd Street, New York City	One
Thomas Crone,	11 West 42nd Street, New York City	One

NINTH—That all of the subscribers to this certificate of incorporation are of full age, at least two thirds of them are citizens of the United States of America and at least one of them is a resident

of the State of New York and that at least one of the persons named as a director is a citizen of the United States of America and a resident of the State of New York.

TENTH—That the following provisions are inserted for the regulation and conduct of the affairs of the corporation, and it is expressly provided that they are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute.

(a) Meetings of the stockholders and directors of the corporation for all purposes may be held at places in the State of New York other than the principal office or at the principal office of the corporation as herein designated and meetings of the directors may be held outside of the State of New York at such place or places as may from time to time be designated in the by-laws or by resolutions of the Board of Directors.

(b) The Board of Directors shall have power from time to time to fix and determine and vary the amount of the working capital of the corporation and to direct and determine the use and disposition of any surplus or net profits over and above the capital stock paid in, and in its discretion, the Board of Directors may use and apply any such surplus or accumulated profits in purchasing or acquiring bonds or other obligations of the corporation or shares of its own capital stock, to such extent and in such manner and upon such terms as the Board of Directors shall deem expedient; but any such shares of such capital stock so purchased or acquired may be resold unless such shares shall have been retired in the manner provided by law for the purpose of decreasing the corporation's capital stock.

(c) No contract or other transaction between the corporation and any other corporation shall be affected or invalidated by the fact that any one or more of the Directors of this corporation is or are interested in or is a Director or officer, or are Directors or officers of such other corporations, and any Director or Directors, individually or jointly may be a party to or parties to or may be interested in any contract or transaction of this corporation or in which this corporation is interested and no contract, act or transaction of this corporation with any person or persons, firms or corporations, shall be affected or invalidated by the fact that any director or directors of this corporation is a party to or are parties to or interested in such contract, act or transaction, or in any way connected with such person or persons, firm or association; and each and every person who may become a director of this corporation is hereby relieved from any liability that may otherwise exist from contracting with the corporation for the benefit of himself or any firm, association, or corporation in which he may be in any wise interested.

Subject always to By-Laws made by the stockholders, the Board of Directors may make By-Laws and from time to time may alter, amend or repeal any By-Laws, but any By-Laws made by the Board of Directors may be altered or repealed by the stockholders.

IN WITNESS WHEREOF, we have made, signed and acknowledged this certificate of incorporation, this tenth day of April, 1929.

IRA L. JONES (L. S.)
JAMES CARLE (L. S.)
THOMAS CRONE (L. S.)

STATE OF NEW YORK }
} SS:
COUNTY OF NEW YORK }

On this 10th day of April, 1929, before me personally came Ira L. Jones, James Carle, and Thomas Crone, to me known and known to me to be the individuals described in and who executed the foregoing certificate and they severally duly acknowledged to me that they executed the same.

(SEAL)

NORAH THOMAS
Notary Public

BY-LAWS OF NEW YORK CORPORATION

The by-laws shown here are typical of the "long form" of by-laws. The contents conform to the provisions of the New York Act, and to the particular circumstances and needs of the corporation. Outstanding points of interest to accountants in this set of By-laws are the provision in Article IV, Section 1 limiting the amounts of salaries of officers, the definitions of powers and duties of the treasurer in Article IV, Section 4, the provisions regulating execution of contracts, vouchers and negotiable instruments, signing of vouchers, leases, etc., in Article V, provisions for closing of transfer books in Article VI, Section 4, provisions as to dividends in Article VII and definition of fiscal year in Article IX.

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BY-LAWS

OF

BROWN CATERING SERVICE, INC.

ARTICLE I—ANNUAL MEETING OF STOCKHOLDERS

SECTION 1. A meeting of the stockholders shall be held annually at the principal office of the Company in the City of New York, County of New York, State of New York, at 3 o'clock P. M., on the 2nd Tuesday in September in each year, unless that be a legal holiday, and in that event on the next succeeding business day, for the purpose of electing Directors, for the purpose of electing two Inspectors of Election to serve at the next annual meeting, and for the transaction of such other business as may properly come before the meeting. Notice of the time and place of holding such meeting shall be published at least once in each week for the two successive weeks immediately preceding such meeting in a newspaper of general circulation published in the County of New York, and a copy of such notice shall be mailed, postage prepaid, at least ten days previous to the meetings, addressed to each stockholder of record at his residence or place of business as the same appears upon the books of the Company.

SECTION 2. Special meetings of stockholders, other than those required by statute, may be held at the principal office of the Company or at such other place in the State of New York as shall be indicated in the notice of meeting, whenever called in writing upon the direction of the President, or by the vote of a majority of the Board of Directors or of the Executive Committee. Special meetings shall be called by the Board of Directors whenever the owners of record of one-third in amount of the entire stock of the Company outstanding at the time and then entitled to vote thereat shall make application to that effect to the Directors in writing, stating the objects of the proposed meeting. All business transacted at such special meetings shall be confined to the objects stated in the call and matters germane thereto.

Unless otherwise expressly provided by statute, notice of each special meeting stating the time, place and object thereof shall be given to each of the stockholders entitled to vote at such meeting, by mailing the same, postage prepaid, to his place of residence or business as the same appears upon the books of the Company, such mailing to be at least seven days before such meeting.

If all of the stockholders shall waive notice of a special meeting, no notice of such special meeting shall be required, and whenever all of the stockholders shall meet in person, or by proxy, such meeting shall be valid for all purposes, without call or notice.

SECTION 3. QUORUM. Except as otherwise provided by law or by the Certificate of Incorporation, at all meetings of the stockholders there shall be present in person or by proxy, stockholders owning at least a majority of the outstanding capital stock of the Company entitled to vote at such meeting, in order to constitute a quorum.

If the holders of the amount of stock necessary to constitute a quorum shall fail to attend in person or by proxy at any meeting, a majority of the stockholders present in person or by proxy may adjourn from time to time without notice other than by announcement at the meeting, until stockholders of the amount requisite to constitute a quorum shall attend.

At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 4. ORGANIZATION OF STOCKHOLDERS' MEETING. At any stockholders' meeting the Chairman of the Board of Directors, and in his absence the President, and in his absence one of the Vice-Presidents, and in the absence of the Chairman of the Board of Directors, the President, or a Vice-President, the Chairman appointed by the stockholders present shall preside at such meeting. The Secretary shall act as Secretary at all meetings of the stockholders. In the absence of the Secretary, an Assistant Secretary shall act as Secretary thereof, and if neither the Secretary nor an Assistant Secretary be present, the presiding officer may appoint another person to act as Secretary of such meeting.

SECTION 5. VOTING. At each meeting of the stockholders, every stockholder entitled to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing, executed by such stockholder or his duly authorized attorney, and delivered to the inspectors at the meeting, and he shall have one vote for each share of stock standing registered in his name at the time of the closing of the transfer books for said meeting. The votes for Directors, and, if the meeting so decides, the votes upon any other matter shall be by ballot.

At each meeting of the stockholders, full, true and complete lists, in alphabetical order, of all the stockholders entitled to vote at such meeting, certified by the Secretary, Treasurer, or Transfer Agent shall be furnished. Only the persons in whose names shares of stock stand on the books of the Company at the time of the closing of the transfer books for such meeting, as evidenced by the list of stockholders so furnished, shall be entitled to vote in person or by proxy on the shares so standing in their names.

Prior to any meeting, but subsequent to the time of closing the transfer books for such meeting, any proxy may submit his powers of attorney to the Secretary, Treasurer or Registrar of Transfers of the Company for examination. The certificate of the Secretary or of the Treasurer as to the regularity of such powers of attorney, and as to the number of shares held by the persons who severally and respectively executed such powers, shall be received as prima facie evidence of the number of shares represented by the holder of such powers of attorney, for the purpose of establishing the presence of a quorum at such meeting and/or organizing the same and for all other purposes.

SECTION 6. INSPECTORS. At each meeting of the stockholders, the polls shall be opened and closed, the proxies and ballots shall be received and taken in charge and all ballots counted by two Inspectors. With the exception of the annual meeting of the stockholders, such Inspectors shall be appointed by the presiding officer

at the meeting. If for any reason any Inspector previously elected or appointed shall fail, or refuse or be unable to attend, or to perform his duties, the presiding officer shall appoint a person to act as inspector in his place. No candidate for the office of Director shall act as Inspector at any election of Directors. Such Inspectors shall be sworn to faithfully perform their duties, and shall certify to the returns in writing. At all elections of Directors the polls shall remain open for at least one hour unless each registered owner of shares entitled to vote has sooner voted in person or by proxy, or in writing has waived the provisions of the statute.

SECTION 7. ORDER OF BUSINESS. The order of business at stockholders' meetings shall be as follows:

1. Calling of roll.
2. Proof of proper notice of meeting.
3. Report of President.
4. Report of Treasurer.
5. Report of Secretary.
6. Report of Committees.
7. Election of Directors.
8. Miscellaneous business.

ARTICLE II—BOARD OF DIRECTORS

SECTION 1. NUMBER AND CLASSIFICATION. The Board of Directors of the Company shall be nine. They shall be classified with respect to the time for which they shall severally hold office, in accordance with the Certificate of Incorporation, into three classes to be known as Classes "A," "B," and "C." Class "A" shall consist of three Directors, each to hold office until the fourth annual election; Class "B" shall consist of three Directors, each to hold office until the second annual election; and Class "C" shall consist of three Directors, each to hold office until the third annual election. At each annual meeting of stockholders, the successors to the class of Directors whose terms shall expire in that year shall be elected to hold office for the term of three years, so that the term of office of one class of Directors shall expire in each year. Each Director shall serve for the term for which he shall have been elected, and until his successor shall have been duly chosen. The Directors shall be chosen by a plurality of the votes of the stockholders present at each annual meeting and entitled to vote for the same. Directors need not be stockholders.

SECTION 2. VACANCIES. Vacancies in the Board of Directors occurring by reason of death, resignation, disqualification or other cause, shall be filled for the unexpired term or until the election of a successor by a majority vote of the remaining Directors at any regular meeting or at any special meeting called for that purpose. In

case of any increase in the number of Directors, the additional Directors shall be elected by the Directors then in office.

SECTION 3. PLACE OF MEETING. The Directors may hold their meeting and have an office or offices and keep the books of the Company (except as is or may otherwise be provided by law) in such place or places in the State of New York or outside of the State of New York as the Board from time to time may determine.

SECTION 4. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held monthly on the 2nd Tuesday of the month, at the office of the Company in the City of New York, or at such other place and at such hour as the Board of Directors may from time to time determine. If such Tuesday is a legal holiday, the meeting shall be held on the next succeeding day which is not a legal holiday. No notice shall be required for such regular meetings of the Board.

SECTION 5. SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board of Directors, or in his absence by the President or in his absence by one of the Vice-Presidents, or by any two of the Directors for the time being in office. The Secretary or an Assistant Secretary shall give notice of each special meeting by mailing or telegraphing the same at least two days before the meeting, to each Director; but such notice may be waived by any Director. The notice shall state the objects of the meetings. At any meeting at which every Director shall be present, even though without any notice, business may be lawfully transacted.

SECTION 6. QUORUM. A majority of the Board of Directors shall constitute a quorum for the transaction of business; but if at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time.

SECTION 7. ORDER OF BUSINESS. At meetings of the Board of Directors business may be transacted in such order as from time to time the Board may determine. At all meetings of the Board of Directors the Chairman of the Board of Directors, or in his absence the President, or in his absence, one of the Vice-Presidents shall preside.

ARTICLE III—EXECUTIVE COMMITTEE

SECTION 1. THE BOARD OF DIRECTORS may elect or appoint at least three, and not to exceed five, of its members, as an Executive Committee, to hold office until their successors are duly elected or appointed. One of such members shall be the Chairman of the Board of Directors, and he shall be the Chairman of the said Committee. Any member of the Executive Committee shall be subject to removal at any time by affirmative vote of two-thirds of the whole Board of Directors.

Any vacancy in the Executive Committee shall be filled by the Board of Directors. All acts and resolutions of the Executive Committee shall be recorded in the Minute Book and be reported to the Board of Directors at its next succeeding regular meeting and be subject to approval of or revision by the Board of Directors, but no acts or rights of third parties shall be affected by any such revision. The Executive Committee shall fix its own rules of procedure and shall meet where and as provided by such rules or by resolution of the Board of Directors, but in every case the presence of a majority of its members shall be necessary to constitute a quorum. The Committee may appoint a Secretary who need not be a member of the Executive Committee. In default of such appointment, the Secretary of the Company, or one of the Assistant Secretaries shall act as Secretary of the Committee. In every case the affirmative vote of a majority of the Executive Committee shall be necessary for the adoption of any resolution. The Chairman and members of the Executive Committee shall receive such compensation for their services as from time to time shall be fixed by the Board of Directors.

SECTION 2. OTHER COMMITTEES. From time to time the Board of Directors may appoint or elect any other committee or committees who shall have such powers as shall be specified in the resolution of appointment.

SECTION 3. POWERS OF THE EXECUTIVE COMMITTEE. During the intervals between the meetings of the Board of Directors, the Executive Committee, as far as it rightfully may, shall possess and may exercise all of the powers of the Board of Directors in the management of the business of the Company, in all cases in which specific directions shall not have been given by the Board of Directors.

During the intervals between the meetings of the Executive Committee, the Chairman thereof may exercise such of the powers vested in the Executive Committee as from time to time may be conferred upon him by resolution of the Board of Directors or of said Executive Committee.

ARTICLE IV—OFFICERS

SECTION 1. THE BOARD OF DIRECTORS, at the first regular meeting held after each annual meeting of the stockholders of the Company, shall elect by ballot the officers of the Company for the ensuing year and until their successors are duly elected; and a majority vote of the whole number of Directors shall be necessary for the election of each of said officers. The officers of the Company shall consist of a Chairman of the Board of Directors, a President, one or more Vice-Presidents, a Secretary, Treasurer and one or more Assistant Secretaries and one or more Assistant Treasurers. The same person may be a Vice-President and the Treasurer or Secretary, and the same person may be the Secretary and Treasurer.

In addition to the regular officers provided for in this Article IV of these By-Laws, the Board of Directors shall from time to time have power to appoint additional officers and committees and to prescribe the tenure of office and the powers and duties of such officers and committees.

The President shall be elected by the Directors from among their own number. In addition to the powers conferred upon them by the By-Laws, all officers elected or appointed by the Board of Directors shall have such authority and shall perform such duties as from time to time may be prescribed by the Board of Directors.

All officers and agents of the Company shall be subject to removal at any time by affirmative vote of two-thirds of the whole Board of Directors. All officers, agents and employees, other than officers elected by or on authority of the Board of Directors, shall hold office at the discretion of the Directors or of the Executive Committee.

The aggregate salaries to be paid all of the officers of the Company (including all the officers of any company whose capital stock is owned or controlled by this Company) in any one year shall not exceed the sum of $150,000.

SECTION 2A. THE CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors shall be the chief executive officer of the Company. He shall preside at all meetings of the Board of Directors and of the stockholders. He shall have, subject to the Board of Directors, control and general supervision over the policies and affairs of the Company, and shall perform such duties in the active management of the Company as may be assigned to him from time to time by the Board of Directors.

SECTION 2B. PRESIDENT. In the absence of the Chairman of the Board of Directors, the President shall preside at all meetings of the Board of Directors and of the stockholders. He shall have active supervision of the business of the Company and execute all contracts, and agreements authorized by the Board and see that all orders and resolutions of the Board of Directors are carried into effect. He shall have the general powers and duties of supervision usually vested in the office of the President of a Corporation. He shall perform such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 3. VICE-PRESIDENT. The Board of Directors may elect one or more Vice-Presidents with such powers and duties as may be assigned to him or them by the Board of Directors.

SECTION 4. TREASURER. The Treasurer shall have custody of all the funds and securities of the company which may come into his hands; he may endorse on behalf of the Company all checks, notes or other obligations and shall deposit same to the credit of the Company in such banks or depositaries as the Board of Directors or the Executive Committee may designate. The Treasurer, as well as the Board of Directors or the Executive Committee, may

designate banks or depositaries for the payroll, plant, district, branch or special accounts. In case such designation is made, a report thereof shall be made to the Board of Directors when specifically requested. He may sign checks, drafts, bills and orders for the payment of money and pay out and dispose of the same under the direction of the Board of Directors or of the Executive Committee. In conjunction with the President or a Vice-President, the Treasurer, or such other officer as may be designated by the Board of Directors, shall sign the notes of the Company. Whenever required by the Board of Directors or by the Executive Committee, he shall render a statement of his accounts. He shall enter regularly in the books of the Company to be kept by him for that purpose, full and accurate accounts of all moneys received and paid by him on account of the Company; he shall at all reasonable times exhibit his books and accounts to any officer or Director of the Company upon application at the office of the Company during business hours; and he shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors, and he shall give such security for the faithful performance of his duties as the Board of Directors or the Executive Committee may determine. The Treasurer may be Secretary or Assistant Secretary of the Company.

SECTION 5. ASSISTANT TREASURER. The Board of Directors may elect or appoint one or more Assistant Treasurers with such powers and duties as may be assigned to him or them by the Board of Directors. Such Assistant Treasurers shall give such security for the faithful performance of their duties as the Board of Directors or the Executive Committee may determine.

SECTION 6. SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the stockholders, and also the minutes of all committee meetings, in books provided for that purpose; he shall attend to the giving and serving of all notices of the Company; he may sign with the President, in the name of the Company, all contracts authorized by the Board of Directors, and when so ordered by the Board of Directors, he shall affix the seal of the Company thereto; he shall have charge of the certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors may direct, all of which shall, at all reasonable times, be open to the examination of any Director, upon application at the office of the Company during business hours; and he shall, in general, perform all the duties incident to the office of Secretary, subject to the control of the Board of Directors. The office of the Secretary and Treasurer or Assistant Treasurer may be held by the same person.

SECTION 7. ASSISTANT SECRETARIES. The Board of Directors may appoint one or more Assistant Secretaries with such powers and duties as may be assigned to him or them by the Board of Directors.

SECTION 8. VOTING POWER OF PRESIDENT. Unless otherwise ordered by the Board of Directors, the President, or in case of his absence or failure to act, a Vice-President or the Treasurer shall have full power and authority in behalf of the Company to attend and to act and to vote at any meetings of stockholders of any corporation in which the Company may hold stock, and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such stock and which, as the owner thereof, the Company might have possessed and exercised if present. The Board of Directors, by resolution, from time to time, may confer like powers upon any other person or persons.

SECTION 9. POWERS OF OFFICERS REGULATED. The Board of Directors may extend or restrict the powers or duties of any officer.

ARTICLE V—EXECUTION OF CONTRACTS, VOUCHERS AND NEGOTIABLE INSTRUMENTS

SECTION 1. All checks, drafts or orders for the payment of money may be signed by the President, Vice-President, Treasurer or such other officers or persons as the Board of Directors may from time to time designate for that purpose, alone; or jointly by any Assistant Treasurer and any Assistant Secretary and any other officers or persons as the Board of Directors may from time to time designate for that purpose; except, that the Board of Directors or the Treasurer of the Company at any time and from time to time with regard to the payroll, plant, district, branch or special accounts (which accounts may be opened by order of the Board of Directors, the Executive Committee, or the Treasurer in such banks and at such times as they or either of them may deem necessary) may determine that the signature of such officers or persons as the Board of Directors or Treasurer may designate shall be sufficient. The Treasurer when specifically requested so to do shall report to the Board of Directors the bank accounts opened by his orders, together with the names of persons authorized by him to draw checks thereon.

SECTION 2. All promissory notes, acceptances and bills of exchange shall be signed by the President and any other officer of the Company, or by the Treasurer and any other officer of the Company.

SECTION 3. Vouchers and receipts for payments made to the Company shall be signed by the Treasurer or an Assistant Treasurer, or by such other officer or persons as the Board may from time to time designate for that purpose.

SECTION 4. Contracts for the purchase of merchandise and supplies in the ordinary course of business, and contracts involving less than one thousand dollars, may be signed by any officer of the Company, or by such person or persons as the Board of Directors may, from time to time, designate for that purpose.

All obligations covering letters of credit and trust receipts relating to the importation of coffee shall be signed by either the Chairman of the Board of Directors, President, Vice-President or the Treasurer of the Company. All other contracts shall be signed by either the President, the Secretary, or the Treasurer and one other officer of the Company. All leases, reports, schedules, returns, documents or other papers requiring the signature of two officers of the Company shall be signed by either the President, the Secretary or the Treasurer and one other officer of the Company.

ARTICLE VI—CAPITAL STOCK

SECTION 1. The certificates for shares of the capital stock of the Company shall be in such form, not inconsistent with the Certificate of Incorporation, as shall be prepared and be approved by the Board of Directors. The certificate shall be signed by the President or a Vice-President and also by the Treasurer or by the Secretary, and countersigned by the Transfer Agent and registered by the Registrar.

All certificates shall be consecutively numbered. The name of the person owning the shares represented thereby, with the number of such shares and date of issue, shall be entered on the Company's books.

All certificates surrendered to the Company shall be cancelled; and no new certificates shall be issued until the former certificate or certificates for the same number of shares of the same class shall have been surrendered and cancelled.

TRANSFERS

SECTION 2. Shares of the capital stock of the Company shall be transferred only on the books of the Company by the holder thereof, in person or by his attorney, upon surrender and cancellation of the certificates for a like number of shares of the same class.

REGULATIONS

SECTION 3. The Board of Directors shall have power and authority to make all such rules and regulations as they respectively may deem expedient concerning the issue, transfer and registration of certificates for shares in the capital stock of the Company.

The Board of Directors may appoint a Transfer Agent and a Stock Registrar and may require all stock certificates to bear the signature of such Transfer Agent and of such Stock Registrar, or either of them.

The Board of Directors may make proper provision from time to time for the issue of new certificates in place of lost or destroyed certificates.

CLOSING OF TRANSFER BOOKS

SECTION 4. Transfer books may be closed for the payment of dividends during such periods as may from time to time be fixed by the Board of Directors. Transfer books may be closed for the meeting of stockholders not less than fifteen days nor more than thirty days prior to such meetings. During such periods no such stock shall be transferable.

The Directors may fix a date for the taking of record of stockholders entitled to vote at any meeting of the stockholders, which date shall be not less than fifteen days nor more than thirty days prior to such meeting, and only stockholders whose names appear in such record shall be entitled to vote at such meeting.

ARTICLE VII—DIVIDENDS

The Board of Directors may declare dividends from surplus profits arising from the business of the Company, but not otherwise.

Dividends shall be paid at such times as the Board of Directors may determine and subject always to the provisions of the Certificate of Incorporation. If the date appointed for the payment of any dividend shall in any year fall on a legal holiday, then the dividend payable on such date shall be payable on the next succeeding business day.

ARTICLE VIII—SEAL

The Board of Directors shall provide a suitable seal containing the name of the Company, which seal shall be in charge of the Secretary and affixed on behalf of the Company if and when so directed by the Board of Directors. Duplicates of the seal may be kept and used by the Treasurer, or by any Assistant Secretary and by any Assistant Treasurer.

ARTICLE IX—FISCAL YEAR

The fiscal year of the Company shall begin on the first day of January and end on the thirty-first day of December; provided, that whenever in any year December 31st shall fall upon any day of the week other than Saturday, the Treasurer of the Company may, in his discretion, close the books of the Company for the business of such year as of the Saturday immediately preceding or immediately following December 31st.

ARTICLE X—AMENDMENTS

Subject to the provisions of the Certificate of Incorporation, the Board of Directors shall have the power to make, amend and repeal the By-Laws of the Company by a vote of a majority of all of the Directors at any regular or special meeting of the Board.

Any By-Laws made by the Board of Directors may be amended by the stockholders at any annual meeting or at any special meeting, provided notice of such proposed amendment be included in the notice of meeting and subject always to the provisions of Section 6 of Article 1 of these By-Laws.

MINUTES OF ORGANIZATION MEETING OF INCORPORATORS NEW YORK CORPORATION

The form of minutes of first meeting of incorporators shown here is fairly representative of minutes of incorporators in the various states. It is important to keep in mind that the minutes must report the procedure prescribed by the statutes of the particular state and that considerable variance exists in the incorporation procedure of the different states. (For principal requirements of incorporation, and methods of filing and recording of charters, in the various states, see Tables printed in Section 9; see also the discussion on organization in Section 2, Chapter III.) In general, the principal business at the organization meetings of incorporators is the election of directors.

WAIVER OF NOTICE

OF

MEETING OF INCORPORATORS AND SUBSCRIBERS

OF

BROWN CATERING SERVICE, INC.

(Incorporated under the Laws of New York)

WE, THE UNDERSIGNED, being all of the incorporators and subscribers to the capital stock of

BROWN CATERING SERVICE, INC.,

a corporation organized under the laws of the State of New York, do hereby severally waive all the statutory and by-law requirements as to notice of the time, place and purpose of the first meetings of incorporators of the said corporation and the publication thereof, and consent that the meeting shall be held at 11 West 42nd Street, in the City of New York, State of New York on the 16th day of April, at 3:00 o'clock in the afternoon; and we consent to the trans-

action of any and all business that may properly come before the meeting.

Dated April 16, 1929.

IRA L. JONES
JAMES CARLE
THOMAS CRONE

MINUTES OF FIRST MEETING OF INCORPORATORS OF BROWN CATERING SERVICE, INC.

(Incorporated under the Laws of New York)

The first meeting of incorporators and subscribers to the capital stock of BROWN CATERING SERVICE, INC., was held at 11 West 42nd Street, in the City of New York, State of New York, at 3 o'clock in the afternoon of the 16th day of April, 1929, pursuant to a written waiver of notice signed by all of the incorporators and subscribers, fixing said place and time.

The following incorporators and subscribers were present in person:

NAME	NUMBER OF SHARES
Ira L. Jones	One
James Carle	One
Thomas Crone	One

being all of the incorporators named in the Certificate of Incorporation and all of the subscribers to the capital stock of the company.

On motion unanimously carried, Mr. Jones was elected chairman and Mr. Crone, secretary of the meeting.

The Secretary presented the waiver of notice of the meeting signed by all of the incorporators and subscribers and it was filed as part of the minutes.

The chairman reported that the original copy of the Certificate of Incorporation of the company was filed in the office of the Secretary of State of the State of New York, on the 12th day of April, and the duplicate original copy thereof was filed for record in the office of the County Clerk of the County of New York, State of New York, on the 14th day of April, 1929, and a copy of said Certificate of Incorporation was ordered to be inserted in the minute book as a part of the records of the meeting.

The secretary presented a proposed form of By-Laws for the regulation and management of the affairs of the company, which was read, article by article, and unanimously adopted and ordered to be made a part of the permanent records to follow the Certificate of Incorporation in the minute book.

Upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the Board of Directors be and it hereby is authorized in its discretion to issue the capital stock of this Corporation to the full amount or number of shares authorized by the Certificate of Incorporation, in such amounts and for such consideration as from time to time shall be determined by the Board of Directors and as may be permitted by law.

The secretary then read to the meeting the resignations submitted by Ira L. Jones, James Carle and Thomas Crone as directors of the company and upon motion duly made, seconded and unanimously carried, the said resignations as directors were accepted and the secretary was instructed to enter the same as part of the records of this meeting.

The chairman then declared nominations in order for the appointment of inspectors of election and George Pittman and Ernest Rogers were nominated and unanimously chosen.

Motion was then declared by the chairman to be in order for the nomination of nine directors, each of the directors nominated to compose Class A to hold office until the fourth annual election, each of the directors nominated to compose Class B to hold office until the second annual election, and each of the directors to compose Class C to hold office until the third annual election, and until their successors are elected and qualify, in accordance with the provisions of the charter of the corporation and the following gentlemen were so nominated:

Class A Directors	Class B Directors	Class C Directors
Edward N. Payson	Edward T. Phillips	Samuel A. Gray
Earl W. Martin	Frank R. Jackson	Clinton O. Riggs
Carl D. Roberts	George M. Rice	William F. Brown

No further nominations having been made, a ballot was taken by the inspectors and all of the subscribers to the capital stock having voted, and the ballots having been duly canvassed, the inspectors declared that Edward N. Payson, Earl W. Martin, Carl D. Roberts, Edward T. Phillips, Frank R. Jackson, George M. Rice, Samuel A. Gray, Clinton O. Riggs and William F. Brown were elected directors of the company by the unanimous vote of all the subscribers to the capital stock.

The secretary presented the following transfers of subscriptions:

FROM	TO	SHARES
Ira L. Jones	Edward N. Payson	One
James Carle	Earl W. Martin	One
Thomas Crone	Carl D. Roberts	One

Upon motion duly made, seconded and unanimously carried, the same were approved and ordered to be filed as part of these minutes.

Upon motion duly made, seconded and unanimously adopted, the meeting thereupon adjourned.

A true copy of the following papers referred to in the foregoing minutes is hereto appended:

Certificate of Incorporation
By-Laws
Waiver of Notice of this Meeting
Ballot
Inspectors' Oath
Directors' Resignations
Transfers of Subscriptions

.....Secretary of the Meeting
New York, New York
April 16th, 1929

BROWN CATERING SERVICE, INC.

INSPECTORS' OATH

COUNTY OF NEW YORK } SS:
STATE OF NEW YORK }

George Pittman and Ernest Rogers being severally sworn and upon their respective oaths do promise and swear that they will faithfully, honestly and impartially perform the duties of inspectors of election and will to the best of their skill and ability conduct the election to be held this day for Directors of the Corporation above named, and a true report made of the same.

GEORGE PITTMAN
ERNEST ROGERS
Inspectors

Subscribed and sworn to before me this 16th day of April, 1929.

Notary Public
New York City, New York
April 16th, 1929

BALLOT
FOR DIRECTORS
OF
BROWN CATERING SERVICE, INC.

Class A Directors

Edward N. Payson
Earl W. Martin
Carl D. Roberts

Edward N. Payson	Votes in person	3
Earl W. Martin	Votes in person	3
Carl D. Roberts	Votes in person	3

Class B Directors

Edward T. Phillips
Frank R. Jackson
George M. Rice

Edward T. Phillips	Votes in person	3
Frank R. Jackson	Votes in person	3
George M. Rice	Votes in person	3

Class C Directors

Samuel A. Gray
Clinton O. Riggs
William F. Brown

Samuel A. Gray	Votes in person	3
Clinton O. Riggs	Votes in person	3
William F. Brown	Votes in person	3

Total	27
Out of Total	27

CORRECT: GEORGE PITTMAN
ERNEST ROGERS
Inspectors

BROWN CATERING SERVICE, INC.

INSPECTORS' REPORT

WE, THE SUBSCRIBERS, INSPECTORS OF ELECTION, appointed by the Subscribers to the capital stock of the company above named at the meeting held this 16th day of April, A. D. 1929, do report that, having taken the oath impartially to conduct the election we did receive the votes of the stockholders by ballot.

We report that twenty-seven votes were cast, and that the following persons received the number of votes set opposite his name, to wit:

FOR CLASS A DIRECTORS	NUMBER OF VOTES
Edward N. Payson	3
Earl W. Martin	3
Carl D. Roberts	3
FOR CLASS B DIRECTORS	**NUMBER OF VOTES**
Edward T. Phillips	3
Frank R. Jackson	3
George M. Rice	3
FOR CLASS C DIRECTORS	**NUMBER OF VOTES**
Samuel A. Gray	3
Clinton O. Riggs	3
William F. Brown	3

All of which is respectfully submitted this 16th day of April, 1929, at New York City, New York.

GEORGE PITTMAN
ERNEST ROGERS
Inspectors

DIRECTORS' RESIGNATION

New York City, New York
April 16th, 1929

To the Stockholders of BROWN CATERING SERVICE, INC.

We hereby tender our resignations as directors of BROWN CATERING SERVICE, INC., to take effect immediately upon acceptance.

IRA L. JONES
JAMES CARLE
THOMAS CRONE

TRANSFER OF SUBSCRIPTION

KNOW ALL MEN BY THESE PRESENTS:

That I, Ira L. Jones, in consideration of Edward N. Payson's agreement to fulfill the obligation of my subscription for one share, contained in the original Certificate of Incorporation of BROWN CATERING SERVICE, INC., a corporation organized under the laws of the State of New York, have assigned and transferred and by these presents do assign and transfer unto said Edward N. Payson, all my right, title and interest in said subscription, and I do hereby authorize and empower the proper officers to issue the certificate for the said share to the order of said transferee.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 16th day of April, 1929.

(SEAL)

In presence of:

(Transfer of subscription by James Carle to Earl W. Martin (same form as above)

(Transfer of subscription by Thomas Crone to Carl D. Roberts (same form as above)

WAIVER OF NOTICE OF FIRST MEETING OF

DIRECTORS

OF

BROWN CATERING SERVICE, INC.

(Incorporated Under the Laws of New York)

We, the undersigned, duly elected directors of

BROWN CATERING SERVICE, INC.

do hereby severally waive notice of time, place, and purpose of a first meeting of directors of said corporation and consent that the meeting be held at No. 11 West 42nd Street, New York City, in the County of New York, City and State of New York, on the 16th day of April, at 3:30 o'clock in the afternoon, and we do further

consent to the transaction of any business requisite to complete the organization of the company and to any and all business that may properly come before the meeting.

EDWARD N. PAYSON
EARL W. MARTIN
CARL D. ROBERTS
EDWARD T. PHILLIPS
FRANK R. JACKSON
GEORGE M. RICE
SAMUEL A. GRAY
CLINTON O. RIGGS
WILLIAM F. BROWN

Dated April 16, 1929.

MINUTES OF FIRST MEETING OF DIRECTORS

OF

BROWN CATERING SERVICE, INC.

(Incorporated Under the Laws of New York)

The first meeting of the Board of Directors of

BROWN CATERING SERVICE, INC.

was held at No. 11 West 42nd Street, New York City, County of New York, City and State of New York, on the 16th day of April, 1929, at 3:30 o'clock in the afternoon.

There were present the following directors of the corporation: Messrs. Edward N. Payson, Earl W. Martin, Carl D. Roberts, Edward T. Phillips, Frank R. Jackson, George M. Rice, Clinton O. Riggs and William F. Brown.

Mr. Edward N. Payson was unanimously chosen temporary chairman and Mr. Earl W. Martin was unanimously chosen temporary secretary of the meeting.

The secretary presented and read a waiver of notice of the meeting signed by all the directors, which was ordered filed with the minutes of this meeting.

The following persons were nominated for officers of the Corporation after the chairman had called for nominations:

President	EDWARD N. PAYSON
Vice-President	EARL W. MARTIN
Secretary	CARL D. ROBERTS
Treasurer	EDWARD T. PHILLIPS

Ballots being duly cast by all the directors present, the chairman announced that the aforesaid persons had been unanimously elected to the offices set before their respective names to assume the duties and responsibilities fixed by the By-Laws.

On motion duly made, seconded, and unanimously adopted, it was

RESOLVED, that a corporate seal, the impression of which is affixed in the margin hereof, be and the same shall be the corporate seal of the company.

A form of stock certificate was presented and upon motion duly made, seconded, and adopted, was unanimously approved.

On motion duly made, seconded, and unanimously adopted, it was

RESOLVED, that the office of the Corporation be established and maintained at No. 11 West 42nd Street, New York City, in the County of New York, City and State of New York, and that meetings of the Board of Directors from time to time may be held either at this office, or at such other office or offices as the Board of Directors shall from time to time order.

FURTHER RESOLVED, that until otherwise ordered, regular meetings of the Board of Directors be held at said office, on the second Tuesday in each month at 3:30 o'clock in the afternoon, or at such other times as shall by resolution of the Board of Directors be determined, pursuant to an amendment of the by-laws providing for such change of time or place.

Upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the President be authorized and directed to open a bank account for the Corporation with a bank or banks selected by him in the Borough of Manhattan, City of New York, which bank or banks be and it or they hereby is or are authorized to honor from the deposits of the Corporation, checks drawn against such deposits signed by such President of the Corporation.

The Secretary of the meeting thereupon presented the following subscriptions to the stock of the company, which subscriptions are in addition to the subscriptions acquired through transfer by the incorporators at the meeting of incorporators:

NAME	ADDRESS	NUMBER OF SHARES
Edward N. Payson,	11 West 42nd Street New York City	49
Earl W. Martin,	11 West 42nd Street New York City	49
Carl D. Roberts,	11 West 42nd Street New York City	49

Mr. Payson thereupon presented to the meeting a check in the amount of five thousand ($5000) dollars in payment of his subscription of stock, which in total amount is fifty (50) shares of stock; Mr. Earl W. Martin presented to the meeting a check in the amount of five thousand ($5000) dollars in payment of his subscription of stock, which in total amount is fifty (50) shares of stock, and Mr. Carl D. Roberts of 11 West 42nd Street, New York City presented his check in the amount of five thousand ($5000) dollars in payment of his subscription of stock which in total amount is fifty (50) shares of stock.

The Secretary then presented subscriptions from Edward T. Phillips, Frank T. Jackson, George M. Rice, Samuel A. Gray, Clinton O. Riggs and William T. Brown for 100 shares each to the stock of this company and presented checks from each of these subscribers in the amount of $10,000.

It was, upon motion duly made and seconded and unanimously carried

RESOLVED, that the President be and he is hereby authorized and directed to deposit the checks of Messrs. Edward N. Payson, Earl W. Martin, Carl D. Roberts, Edward T. Phillips, Frank R. Jackson, George M. Rice, Samuel A. Gray, Clinton O. Riggs and William F. Brown to the order of the company in the bank or trust company in which it is decided that it will keep its account, and it was further

RESOLVED, that the Treasurer be and he is hereby authorized and directed to issue to Mr. Edward N. Payson, fifty shares of the stock of the Corporation, to Mr. Earl W. Martin fifty shares of the stock of the Corporation, to Mr. Carl D. Roberts, fifty shares of the stock of the Corporation, to Edward T. Phillips, 100 shares of the stock of the Corporation, to Frank R. Jackson, 100 shares of the stock of the Corporation, to George M. Rice 100 shares of the stock of the Corporation, to Samuel A. Gray 100 shares of the stock of the Corporation, to Clinton O. Riggs 100 shares of the stock of the Corporation and to William F. Brown 100 shares of the stock of the Corporation.

Upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the President be and he hereby is authorized to pay all fees and expenses incident to and necessary for the organization of this Corporation.

Upon motion duly made, seconded and unanimously carried, the meeting was then adjourned.

EARL W. MARTIN,
Secretary of the Meeting.

SECTION SIX

RESOLUTIONS

The corporation officer or executive responsible for the conduct of the corporation's accounts and the public accountant who audits the corporation's records should be familiar with all contents of the minutes affecting the assets or liabilities of the company. The forms of resolutions printed in this section constitute a very limited selection from a very large number of resolutions which affect the real and personal property, and the claims held by or running against the corporation. In many instances the prescribed formality is imperative to the validity of the action taken in respect to such property or claims. The correctness of the information in the financial records should be verified by reference to the related resolutions, recitals, documents or reports embodied in the minutes. If such information is not a true representation of the action so reported, or is inconsistent with the logical interpretation of the language of the minutes, consideration must be given as to how to bring the corporate and financial records into agreement.

Salaries of Officers

On motion, duly made and seconded, it was

RESOLVED, That the President and Treasurer shall be compensated for their services in the sum of $.....each per annum, such compensation to date from.....

Renewal of Existing Salaries

Upon motion, duly made and seconded, it was unanimously voted to continue the present salaries of the officers of the corporation for the ensuing year.

Payment of Bonus or Percentage of Net Profits to President

RESOLVED, That pursuant to a resolution of the Executive Committee passed————and approved by action of the Board of Directors on the same date providing for the payment of a "Bonus" to the President consisting of a specified percentage of the net earnings of the company, the Executive Committee hereby authorizes the payment to the President of —% of the net earnings of the company as determined for the six months ending————.

Compensation of Vice-President of Company Salary and Commissions

RESOLVED, That the agreement between the company and Mr. ———be renewed for one year from———with the following changes: That Mr.———'s salary be fixed at the rate of $—— per annum for his services as Vice-President and General Manager and a further compensation equal in amount to——% of the net proceeds realized from the sale of———, after deducting from the said net proceeds realized by the company on the sale of———an amount equal to———of the total Federal Income Tax payable by the company on all of its income for the year ending———.

Authorizing Directors' Fees and Expenses

Upon motion, duly made, seconded and unanimously carried, the fees of the Directors for attendance at each meeting of the Board of Directors were fixed at the sum of $———, in addition to any necessary traveling expenses.

Authorized Appointment of Accountants and Making of Audit

RESOLVED, That a firm of Public Accountants be employed to examine the books of the corporation and all documents appertaining to its business and to make detailed report of the company's assets and liabilities and conditions generally, such examination to be made beginning with the company's condition at its inception and ending with———.

FURTHER RESOLVED, That the officers of the company be and they hereby are instructed to cooperate with such Accountants to facilitate the object above stated.

Appointment of Certified Public Accountants as Official Auditors

WHEREAS, Under Section———of the by-laws, the accounts of the corporation are to be made the subject of a detailed audit each year and the correctness of the balance sheet and profit and loss account ascertained by Certified Public Accountants, and

WHEREAS, At the annual meeting of the stockholders the Board is required to submit to the stockholders said balance sheet and profit and loss account made up and audited by Certified Public Accountants to as recent a date as practicable, be it

RESOLVED, That the firm of ———&———, provided that they are not, or either of them, or any of their associates or employees, stockholders or regular employees of the corporation, shall be appointed by the Board of Directors to act as the regular auditors of

the corporation and to make such detailed audit, and to certify to the correctness of the balance sheet and profit and loss account.

Capitalizing Cost of Experimental Work

RESOLVED, That the action of the officers of this company in capitalizing the cost of experimental work done by this company in the year———be and the same hereby is in all respects ratified, approved and confirmed.

Approval of Bill

The President presented the bill of the———for $———for ———. Upon motion duly made, and seconded, it was

RESOLVED, That the bill rendered by the———for $——— for the services mentioned in the preamble be and it hereby is approved and ordered paid.

Directors' Authorization of Issuance of Stock for Patents and Cash

RESOLVED, That in the opinion of this Board the property offered to this company by———is worth the full sum of $——— demanded by the said———and that it is wise and expedient that the offer made by the said———be accepted and that the Vice-President and Secretary be and they hereby are authorized and directed to issue to the said———, upon his executing and delivering to this company an instrument of assignment of the said patents, ——— shares of the company less those already issued, it being understood that he will return to the treasury———shares as proposed and in due course shall pay into the treasury the sum of $———.

FURTHER RESOLVED, That the due transfer of title to said property and the payment of the sum $———shall be accepted as full payment of the stock of this corporation.

General Authorization to Open Bank Account

RESOLVED, That any two officers of this corporation be and they hereby are authorized and empowered to designate such banks and trust companies as depositaries of this corporation as they, in their discretion, may deem advisable and for the best interests of this corporation, and that any funds at any time standing to the credit of the corporation in said banks and/or trust companies, shall be subject to withdrawal or charge upon checks or other instruments of whatsoever nature for the payment of the money when signed or drawn on behalf of this corporation by any two of its officers.

FURTHER RESOLVED, That said banks and/or trust companies be and they hereby are authorized, without inquiry, to honor and pay any and all such checks or other instruments, either drawn to

the individual order of any officer or officers signing the same, when tendered in the payment of the individual obligation or deposited to the individual credit of any such officer or officers or otherwise, in any manner or for any purpose whatsoever.

FURTHER RESOLVED, That any two officers of this corporation, acting co-jointly, be and they hereby are authorized to borrow money and to obtain credit for this corporation from any banks and/or trust companies on such terms as may seem to them advisable, and to make and to deliver to said banks and/or trust companies any instrument or instruments evidencing the indebtedness of this corporation therefor and as security therefor to pledge and hypothecate to said banks and/or trust companies any property of whatsoever nature of this corporation including, but not in any way limiting, the foregoing securities and evidences of indebtedness, negotiable or otherwise, with full authority to endorse or guarantee the same in the name of this corporation, and also in connection with any loan or pledge to execute and deliver to the said banks and/or trust companies any and all instruments of assignment and transfer, contracts, trust receipts, and other documents of whatsoever nature which may be required with or without the corporate seal of the corporation.

FURTHER RESOLVED, That any two officers of this corporation, acting co-jointly, may discount with the said banks and/or trust companies any bills receivable or negotiable paper belonging to this corporation, with full authority to endorse or guarantee the same in the name of this corporation.

FURTHER RESOLVED, That the Secretary or an Assistant Secretary of this corporation be and he hereby is directed to deliver to the said banks and/or trust companies certified copies of the foregoing resolutions, together with a certificate setting forth the names and titles and certifying to the signatures of the respective officers of this corporation, and from time to time such further certificates covering any change in the said officers, and that said banks and/or trust companies may recognize and deal with the officers whose names are set forth in the said certificates and otherwise act upon the authority of the foregoing resolutions until the receipt by the said banks and/or trust companies of a written notice to the contrary purporting to be signed by the President or a Vice-President and the Secretary or an Assistant Secretary of this corporation.

FURTHER RESOLVED, That checks in payment of dividends may be signed by the Treasurer or an Assistant Treasurer without countersignature.

FURTHER RESOLVED, That checks in payment of dividends may be signed with the imprinted facsimile signature of the Treasurer or an Assistant Treasurer of this corporation.

Authorization to Borrow Money and Issue Promissory Notes Therefor

(Comprehensive Form)

WHEREAS, This company desires to borrow money for its corporate purposes,

NOW, THEREFORE, BE IT RESOLVED, That the proper officers of this company be and they are hereby authorized and empowered to borrow for and on behalf of this company from the———Trust Company not to exceed $———on the promissory note of this company maturing———days from the date thereof, to be signed by the proper officers and to bear interest at the rate of —% per annum with the privilege, however, of renewing said loan at its maturity for a further period of———days upon payment of $———, on account of the principal amount due, and with the additional privilege of renewing the balance of said loan at the maturity of this further period of———days upon payment of $——— on account of said balance, thereby reducing said loan to $———, and

BE IT RESOLVED, That the proper officers of this company be and they hereby are authorized and directed to sign any new or renewal note or notes required by said———Trust Company to carry out the provisions of these resolutions, which note or notes shall bear such rate of interest as shall be agreed upon between this company and the said———Trust Company at the time of such renewal or renewals.

BE IT FURTHER RESOLVED, That———, the——— Vice-President of this company, be and he hereby is authorized and empowered for and on behalf of this company to countersign the aforesaid promissory note of $——— or any new or renewal note or notes above mentioned.

FURTHER RESOLVED, That the———Trust Company in the City of———be and it hereby is designated as depositary of this company, and the Treasurer is directed to open a deposit account with said———Trust Company, and the Secretary be and he hereby is directed to certify to said depositary a copy of this resolution and to furnish said depositary with the names of the officers of this company authorized to endorse or sign drafts or checks deposited in or drawn against such account.

Authorizing Redemption of Bonds

WHEREAS, Under date of———, 19—, a certain Indenture of Mortgage or Deed of Trust was executed and delivered by this corporation to———Trust Company, as Trustee, to secure an auth-

orized———Dollars ($———) principal amount of———Bonds of this corporation and

WHEREAS, Provision has been made for the retirement and cancellation of all of the aforesaid bonds, authorized and outstanding at this time,

NOW, THEREFORE, be it

RESOLVED, That the proper officers of this corporation be and they hereby are authorized, empowered, and directed to pay or cause to be paid to———Trust Company, as Trustee under the aforesaid Indenture of Mortgage or Deed of Trust, moneys sufficient to redeem and retire on———, 19—, all of the bonds heretofore issued under and pursuant to the provisions of the said Indenture of Mortgage or Deed of Trust at the redemption price of the said bonds in effect on such date; and the said———Trust Company, as Trustee, as aforesaid, be and it hereby is requested, upon such payment, to satisfy and discharge said Indenture of Mortgage or Deed of Trust and to deliver to or upon the order of the———of this corporation a proper release and satisfaction piece, acknowledging full satisfaction and discharge of the said Indenture of Mortgage or Deed of Trust, and to deliver all collateral and/or other property of whatsoever nature held by the said———Trust Company, as Trustee, as aforesaid (except the cash paid for the redemption and retirement of the said bonds), to or upon the order of the———of this corporation, and the proper officers of this corporation be and they hereby are authorized and empowered to take any other or further steps or to do any and all other acts or things necessary or in their judgment proper to carry into effect the intention of this resolution.

FURTHER RESOLVED, That notice of such redemption and retirement shall be given and published as required by the aforesaid Indenture of Mortgage or Deed of Trust, the first publication to be made on———, 19—, in———(newspaper); that the said Trustee be and it hereby is irrevocably appointed the agent of this corporation, in its name, place, and stead, to publish and give such notice of redemption or retirement in the name of this corporation, or otherwise, as the said Trustee may see fit, this corporation hereby ratifying and confirming all that its said agent may do in its behalf in the premises; and that the———and———of this corporation, or either of them, be and they hereby are authorized and directed to execute and deliver to the said Trustee any and all such powers of attorney and other instruments as the said Trustee may request, and to cause to be done any and all such other acts and things as may be necessary or advisable or convenient or proper in order to carry into effect the foregoing resolutions and the intent of each thereof, and

FURTHER RESOLVED, That the said bonds and the coupons appertaining thereto, when so paid, be cancelled and then cremated

or otherwise destroyed by the Trustee at the direction of the———or ———of the corporation, who shall designate in writing some person to act as the representative of this corporation at such cremation or other destruction of the said bonds and coupons, the Board of Directors of this corporation hereby ratifying and confirming all the acts of such person so appointed in the premises.

Declaration of Common Stock Scrip Dividend

(This Form may also be Used for Preferred Stock Scrip Dividend)

RESOLVED, That the Board of Directors of this corporation does hereby declare an additional dividend of———per cent. (—%) on the common stock of this corporation, deliverable on the———day of———, 19—, and that this dividend be in non-interest bearing scrip, covering rights to common stock, that a certificate therefor be issued to the Treasurer of the corporation and transferable fractions thereof be issued to or upon the order of common stockholders of record on the———day of———, 19—, from time to time as requested, and that the proper officers of this corporation be and they hereby are instructed to take action accordingly.

Purchase of all Merchandise and Other Assets of Business

RESOLVED, That the officers of this corporation accept the offer of the firm of———and Co. to sell all of the merchandise in their premises at No.———, together with all the assets of every kind, nature, and description belonging to the business now conducted by them, including all cash on hand as appears on the books of that company on the———day of———, ———, for the sum of $———, or shares of the common stock of this corporation, and the proper officers of the corporation hereby are authorized to conclude the purchase of the said merchandise and other assets belonging to the said business by issuing to the said firm of———and Co.——— shares of the capital stock of this corporation on receipt of a duly executed bill of sale of the said merchandise and other assets, and evidence of compliance with the Bulk Sales Law of the State of ———.

Authorization of Sale of Treasury Stock

RESOLVED, That the Chairman of the Board be empowered to sell at his discretion up to $———par value of the treasury common stock of this company at a price to net the company not less than $———per share, commission not to exceed———.

Ratification of Sale of Treasury Stock

RESOLVED, That the sale of $———treasury common stock reported by the Chairman of the Board of Directors be and it hereby is approved and ratified by the Directors of this company.

Declaration of Dividend

WHEREAS, This company has on——— ——— ———on hand a surplus from earnings as shown by the books, of———, which surplus has not materially changed since that date,

RESOLVED, That a dividend aggregating $———, to-wit, ———per share of the issued and outstanding capital stock of this company be and the same hereby is declared out of net earnings of this company payable forthwith to stockholders of record of the company on this date and the Treasurer of this company be and he hereby is authorized and directed to make payment of such dividend out of moneys now in the treasury of the company.

SECTION SEVEN

FORMS

The forms of subscription agreement printed in this section are intended to be sufficiently comprehensive in scope, to afford an example of any of the forms in common use. Involved forms of syndicate agreements are occasionally employed to suit particular needs, but these are encountered infrequently in practice. The forms here presented are to be examined in connection with the discussions of subscriptions and subscription records in Section Three, Chapter VIII.

.....

SUBSCRIPTION AGREEMENT PRIOR TO INCORPORATION FOR PREFERRED STOCK MILLER LITHOGRAPHIC COMPANY, INC.

To be incorporated under the laws of the State of New Jersey, to carry on a lithographing business in Newark.

Capital Stock $325,000.

Common Stock	$250,000.	Shares $100. each
Preferred Stock	$ 75,000.	Shares $100. each

We, the undersigned, hereby severally agree to take and pay for the number of shares of the Preferred Stock of the Miller Lithographing Company, Inc., (to be incorporated) set opposite our respective names, at the par value of $100 per share. Payment of fifty per cent of the said price of said shares to be made to the Treasurer of said Corporation immediately after its organization, without demand other than a notice from the Secretary of said Corporation, and the remainder upon calls made by the Board of Directors; provided that not more than ten per cent of the par value of said shares shall be called for in any one month; provided further, that said corporation shall be founded and organized not later than March 1, 1929, and further also provided, that not less than fifty per cent of the Preferred and not less than fifty per cent of the Common Stock shall be subscribed for by responsible persons prior to said last named date.

And the following is an additional condition, the failure to comply with which shall render this subscription void: The said Miller Lithographing Company, Inc., shall provide in its articles of incor-

poration (or provision shall be made in its charter) for a Capital Stock of $325,000 divided into 3,250 shares of the par value of $100 each, 750 of which are to be Six Per Cent Cumulative Preferred Stock; the Preferred Stock to be redeemable at any time after ten years at the option of said Company, by paying the par value thereof and the accrued dividends, or may be exchanged, at the pleasure of its holders, at any time before redemption, at its par value, for any interest bearing bonds which may be issued by said Corporation.

Dated January 16, 1929.

Names	Addresses	Shares	Amount
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

INSTALLMENT NOTICE FOR SUBSCRIPTIONS PAYABLE ON DEMAND

Installment Notice

Henderson Leather Company, Inc.

Philadelphia, Pennsylvania

Dear Sir:

You are hereby notified that by resolution of the Board of Directors an installment of ..... per cent on subscriptions for the stock of this company has been called to be paid to the treasurer of the company on or before the ..... day of ....., 19.....

.....
Treasurer

Philadelphia, Pennsylvania,
....., 19.....
..Shares subscribed .....
Amount of assessment $.....

INSTALLMENT RECEIPT

No. .... Shares

A. R. Jordan Corporation
Land Title Building
Philadelphia, Pa.

$.....

Received of ..... the sum of ..... Dollars, installment payment No. ....., of ..... Per Cent upon his subscription for ..... Shares of the Capital Stock of the A. R. Jordan Corporation.

.....
Treasurer

Philadelphia, Pa.,
....., 19.....

RECEIPT FOR STOCK SUBSCRIPTION

No. .... Shares

A. R. Jordan Corporation
Land Title Building
Philadelphia, Pa.

$.....

This is to certify that ..... has paid into the Treasury of the A. R. Jordan Corporation the sum of ..... Dollars, payment in full of his subscription for ..... Shares of its Capital Stock, duly executed Certificates for which will, upon surrender of this Receipt, be issued to his order so soon as said Certificates are ready for delivery.

.....
Treasurer

Philadelphia, Pa.,
....., 19.....

FULLY PAID STOCK SCRIP—INTERIM CERTIFICATE

No. .... Shares

No. .....

Interim Certificate
Wheeler-Belden, Inc.,
Woolworth Building
New York City

Shares .....
$.....

This is to certify, that....., a subscriber for ..... Shares of the Capital stock of Wheeler-Belden, Inc., at its par value of One Hundred Dollars per share, has this day paid into the treasury of the Company in payment of said subscription and in accordance with its terms, the sum of ..... Dollars.

As soon as said Certificates are ready for delivery, the stock certificates duly executed for the said ..... Shares will be issued to the order of the said subscriber, upon surrender of this scrip certificate.

Name,
.....

Wheeler-Belden, Inc.,

By .....
President

Date,
....., 19...

....., 19....

.....

SUBSCRIPTION AGREEMENT—SHORT FORM

HENDERSON LEATHER CO., INC.
PHILADELPHIA, PA.

Capital Stock $150,000
Shares $50 each

I hereby agree to purchase ..... shares of the full paid and non-assessable capital stock of the Henderson Leather Co., Inc., and inclose my check for ..... Dollars ($.....) in payment for the said shares, which subject to acceptance of my subscription by an officer of the Henderson Leather Co., Inc. in the name of the said Company are to be issued in my name as subscribed hereto and mailed to the address given below.

Dated ..... Purchaser of shares .....
Address .....

SUBSCRIPTION LIST—PRIOR TO ORGANIZATION
THOMAS FURNITURE CORPORATION

A Corporation to be organized under the Laws of the State of Massachusetts for the Manufacture and Sale of Furniture in the City of Boston.

Capital Stock $500,000
Shares $100 Each

We, the undersigned, hereby severally subscribe at par value thereof for the number of shares of the capital stock of the Thomas Furniture Corporation set opposite our respective names.

Boston, Massachusetts, February 5th, 1929.

Names	Addresses	Shares	Amount
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

INSTALLMENT SCRIP

No. ..... Shares ..... $.....

Henderson Leather Company, Inc.
Philadelphia, Pennsylvania

This is to certify that....., a subscriber for ..... shares of the capital stock of the Henderson Leather Company, Inc., at its par value of $50 per share, has paid into the treasury of the company, on account of said subscription

and in accordance with its terms, the sum of ..... dollars, the ..... installment of ..... per cent each upon his subscription.

Upon payment of all the installments of said subscription and surrender of all outstanding installment scrip certificates, full paid certificates for said ..... shares of stock will be issued to the order of said subscriber.

.....
President

.....
Secretary

Philadelphia, Pennsylvania,

....., 19.....

ASSIGNMENT OF STOCK SUBSCRIPTION

For Value Received, I hereby sell, assign and transfer unto ..... of ..... my subscription for ..... Shares of the Capital Stock of the ....., together with the payments made thereon, all as evidenced by the within certificate, and I do hereby authorize and instruct the proper officials of said Company upon completion of the conditions of my said subscription, to issue said stock to the order of my said assignee.

.....

.....,

....., 19.....

In the presence of

.....

SECTION EIGHT

AGREEMENTS

The specimen indenture printed in this section is not complete. In addition to the recitals each article or section with which the accountant is particularly concerned is reproduced in full. In every instance where articles or sections are not so reproduced, the nature of the subject matter is indicated by the descriptive captions shown in parentheses. This indenture was selected as representative of the usual mortgage forms, and because it is considered to have a wider scope of applicability to average needs than would be true of a more specialized mortgage. It is suggested that the contents of the agreement be read in connection with the discussion in Chapter XIV and more particularly with respect to the charts of contents shown in Figs. 35 and 35a. It will be observed that since the mortgagee corporation is engaged principally in the ownership of real estate and hotel properties, some provisions usually found in indentures executed by manufacturing companies, public utilities, corporations and railroad companies are not inserted in the present mortgage.

GENUNG REAL ESTATE CORPORATION

WITH

COSMOPOLITAN TRUST COMPANY

AGREEMENT

DATED AS OF JANUARY 1, 1927

$4,250,000

FIRST MORTGAGE 5½% SINKING FUND GOLD LOAN

THIS AGREEMENT, dated as of the first day of January 1927, between Genung Real Estate Corporation, a corporation duly organized under and existing under the laws of the State of New York (hereinafter termed the "Mortgagor"), having its principal office at No. 1305½ Broadway, in the City of New York, in the State aforesaid, and THE COSMOPOLITAN TRUST COMPANY, a trust company duly organized and existing under the laws of the State of New York (hereinafter termed the "Mortgagee"), having its principal office at No. 4705 Fifth Avenue, in the City of New York, in the State aforesaid,

WITNESSETH:

Whereas, the Mortgagee is the holder, as Trustee, of certain bonds and mortgages securing the same, to wit:

(1) A certain bond conditioned for the payment of Three Hundred and Thirty Thousand Dollars ($330,000) made by No. 407 N. 11th St. Co. Inc., to The Yale Mortgage Company, dated November 27, 1917, on which said bond there is now unpaid the sum of Three hundred and ten Thousand Dollars ($310,000), with interest, and which said bond is secured by a mortgage bearing even date therewith, recorded in the Office of the Register of the County of New York in Liber 123½ of Mortgages page 4, the said bond and mortgage having been assigned by mesne assignments to The Harvard Savings Bank, which said mortgage is now a valid lien on the premises hereinafter described as Parcel B.

(2) A certain bond conditioned for the payment of Fifteen thousand Dollars ($15,000) made by No. 407 N. 11th St. Co. to The Williams Savings Bank, dated October 8, 1918, on which said bond there is now unpaid the sum of Fifteen thousand Dollars ($15,000), with interest, which said bond is secured by a mortgage bearing even date therewith, recorded in the Office of the Register of the County of New York in Liber 9734½ of Mortgages, page 211, the said bond and mortgage having been assigned to The Harvard Savings Bank, which said mortgage is now a valid lien on the premises hereinafter described as Parcel B.

(3) A certain bond conditioned for the payment of One Hundred and fifty-five thousand Dollars ($155,000) made by Genung North 11th Street Corporation to The Harvard Savings Bank, dated May 26, 1923, on which said bond there is now unpaid the sum of One hundred and fifty-five thousand Dollars ($155,000), with interest, and which said bond is secured by a mortgage bearing even date therewith, recorded in the Office of the Register of the County of New York in Liber 4782 of Mortgages, page 11, which said mortgage is now a valid lien on the premises hereinafter described as Parcel B.

(4) A certain bond conditioned for the payment of Three million seven hundred seventy thousand Dollars ($3,770,000) made by the Mortgagor to the Mortgagee, dated as of January 1, 1927, on which said bond there is now unpaid the sum of Three million seven hundred seventy thousand Dollars ($3,770,000), with interest, and which said bond is secured by a mortgage bearing even date therewith, intended to be recorded simultaneously herewith in the Office of the Register of the County of New York, which said mortgage is now a valid lien on the premises hereinafter described as Parcels A, B and C; and

WHEREAS, the parties hereto desire to consolidate, co-ordinate and extend the bonds and mortgages mentioned in subparagraphs 1, 2, 3 and 4 of the preceding recital so that they together shall constitute in law but one first and joint mortgage upon all of the premises hereinafter described for the principal sum of Four million two hundred fifty thousand Dollars ($4,250,000) with interest thereon to be computed from the first day of January, 1927, at the rate of five and one-half per cent (5½%) per annum, payable semi-annually on the first day of July and the first day in January in each year, the principal sum to be paid as hereinafter provided, and hereby agree that whenever the terms of said bonds and mortgages in any way conflict with the terms and provisions of this agreement, the terms and provisions of this agreement shall prevail, and that the covenants, stipulations and conditions in this agreement shall be in place of and in substitution for the covenants, stipulations and conditions contained in said bonds and mortgages, and/or in any amendment thereof, and

that any covenants, stipulations and conditions contained in either of said bonds and mortgages, and/or in any amendment thereof not included in this agreement shall be of no effect; and

WHEREAS, it is contemplated that the Mortgagee shall, and it is hereinafter provided that the Mortgagee may, issue its certificates, of even date herewith, in the denominations of One thousand Dollars ($1,000) and/or Five hundred Dollars ($500) as it may elect to an aggregate principal amount of not to exceed Four million two hundred fifty thousand Dollars ($4,250,000) at any one time outstanding, all representing pro rata shares or parts of said bonds and mortgages and of this agreement, and of insurance policies and other instruments and evidences of title relating thereto held by the mortgagee under the provisions thereof or hereof, without priority as to any of said certificates over any of the others, which said certificates shall have attached thereto, interest warrants representing the respective interest payments to become due on said bonds and mortgages under this agreement and which are apportionable to each such certificate, and which said certificates shall be registerable as to principal and exchangeable as to denomination, and the holders of which said certificates shall be entitled to all the rights and benefits in relation thereto in this agreement provided; and

WHEREAS, said certificates and interest warrants are to be respectively substantially in the following forms, with proper insertions, additions and variations as in this agreement provided, to wit:

(FORM OF CERTIFICATE)
(FORM OF INTEREST WARRANT)

and

WHEREAS, all things necessary to make this agreement a valid, binding and legal agreement in accordance with its terms have been done and performed and have happened:

NOW, THEREFORE, THIS AGREEMENT WITNESSETH: That in consideration of the premises and of the mutual covenants and agreements herein contained, and as security for the payment of the principal sum of Four million two hundred fifty thousand Dollars ($4,250,000) secured by the bonds and mortgages hereinbefore described, and interest thereon, and for the purpose of authorizing the issuance of certificates by the Mortgagee as in this agreement provided, and of the interest warrants to be attached to said certificates, and to define and declare the terms and conditions upon which said certificates are to be issued, delivered, received and held, the Mortgagor does hereby confirm unto the Mortgagee, its successors and assigns forever, the bonds and mortgages aforesaid and does spread and extend the same over and upon the following described premises, to wit:

All those certain plots, pieces or parcels of land, with the buildings and improvements thereon erected, situate, lying and being in the Borough of Manhattan, City, County and State of New York, and bounded and described as follows:

PARCEL A
(DESCRIPTION OF PROPERTY)
PARCEL B
(SIMILAR DESCRIPTION OF ANOTHER PIECE OF LAND)
PARCEL C
(SIMILAR DESCRIPTION OF ANOTHER PIECE OF LAND)

Together with all and singular the tenements, hereditaments, appurtenances and easements belonging or in any wise appertaining to

the aforesaid property, or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever which the Mortgagor now has or may hereafter acquire in and to the aforesaid property, and every part and parcel thereof, and all estate, right, title, interest and claim whatsoever which the Mortgagor now has or may hereafter acquire in and to the aforesaid property, and every part and parcel thereof, and all estate, right, title, interest and claim whatsoever which the Mortgagor now has or may hereafter acquire in and to any and all fixtures, furnishings and equipment in or about the same and in and to any and all personal property now or hereafter appurtenant to or which may be used in or in connection with the operation of any building now or hereafter erected on said premises;

TO HAVE AND TO HOLD all and singular the above confirmed premises and property (herein sometimes termed the "mortgaged premises") unto the Mortgagee, its successors and assigns forever.

It is hereby expressly understood and agreed, nevertheless, that the mortgaged premises are subject to the lien of the mortgages hereinbefore described and are to stand as security for the payment thereof and of the bonds hereinbefore described, and in further consideration of the terms and mutual covenants hereinafter contained, the parties hereto do hereby covenant and agree with each other that said bonds and mortgages, on which there is owing the principal sum of Four million two hundred fifty thousand Dollars ($4,250,000) in gold coin of the United States of America of the present standard of weight and fineness, together with interest thereon, are hereby consolidated and the same made co-ordinate with each other, so that together they shall constitute in law but one first and joint mortgage upon the premises above described with the same effect as though they were one mortgage for the principal sum of Four million two hundred and fifty thousand dollars ($4,250,000) and interest, and that the time of payment of the principal indebtedness, to wit, Four million two hundred fifty thousand Dollars ($4,250,000) (herein sometimes referred to as the First Mortgage 5½% Sinking Fund Gold Loan of Genung Real Estate Corporation), now owing upon and secured by said bonds and mortgages, be and the same is hereby extended to the first day of January, 1947, subject to the provisions for earlier payment hereinafter contained, provided the Mortgagor meanwhile pays interest in like gold coin on the amount owing on said bonds and mortgages at the rate of five and one-half per cent (5½%) per annum from the first day of January, 1927, semi-annually on the first day of July and the first day of January in each year, and also complies with all the terms and conditions of said bonds and mortgages as by this agreement modified, and the Mortgagor in consideration of the foregoing and of One Dollar ($1) paid by the Mortgagee, and other valuable considerations, the receipt whereof is hereby acknowledged, for itself, its successors and assigns, does hereby covenant and agree to and with the Mortgagee, its successors and assigns, and the bearers or registered holders for the time being of any certificates representing shares or parts of said bonds and mortgages and of this agreement (herein sometimes referred to as the "certificates") and the bearers of the interest warrants to said certificates appertaining, as follows:

ARTICLE ONE

ISSUE, EXECUTION, REGISTRATION AND EXCHANGE OF CERTIFICATES

SECTION 1. Certificates, substantially in the form hereinbefore recited, representing shares or parts in said bonds and mortgages and

in this agreement together with any insurance policies and other instruments and evidences of title relating thereto held by the Mortgagee hereunder, may from time to time, upon the written request of the Mortgagor, signed by its President or a Vice-President, be executed and delivered by the Mortgagee to an aggregate principal amount not exceeding Four million two hundred fifty thousand Dollars ($4,250,000) at any one time outstanding. It is, however, understood and agreed that no such certificates shall be issued unless and until the aforesaid mortgage dated as of January 1, 1927, from the Mortgagor to the Mortgagee, the assignment to the Mortgagee of the other mortgages above described, and this agreement, shall have been filed for record or arrangements satisfactory to the Mortgagee shall have been made for the filing of the same.

SECTION 2. The Mortgagee may from time to time issue hereunder such certificates, substantially in the form hereinbefore set forth, which certificates shall be in the denominations of One thousand Dollars ($1,000) and/or Five hundred Dollars ($500) each, and shall bear such distinguishing numbers as the Mortgagee may determine, each of said certificates to represent a share or part in said bonds and mortgages and in this agreement and in any insurance policies and other instruments and evidences of title relating thereto held by the Mortgagee, to the extent that the principal amount expressed in each such certificate bears to the principal amount expressed in said consolidated indebtedness at the time outstanding and unpaid. Said certificate shall be executed in behalf of the Mortgagee by its Secretary or an Assistant Secretary or other officer by it designated, and the interest warrants to be attached to said certificates shall be authenticated by the facsimile signature of a person who at the date of this agreement or at some time subsequent thereto shall be, or shall have been, the Treasurer or an Assistant Treasurer of the Mortgagee. In case any officer of the Mortgagee who shall have executed any such certificate or interest warrant shall cease to be such officer before such certificate or interest warrant shall have been actually delivered, such certificate or interest warrant may, nevertheless, be duly delivered hereunder.

SECTION 3. (Temporary certificates to be issued pending definitive preparation of certificate).

SECTION 4. (Rights of holders of temporary certificates same as under definitive certificate).

SECTION 5. (Description of definitive certificates)

SECTION 6. (New certificates can be issued to replace those lost or destroyed).

SECTION 7. (Holders may exchange old certificates for new ones of different denominations).

SECTION 8. For any registration, transfer, discharge from registration, substitution or exchange of certificates, as in this Article provided, the Mortgagee may at its option, and if so requested by the Mortgagor, shall require the payment of a sum equal to any stamp tax or governmental charge payable upon such registration, transfer, discharge from registration, exchange or substitution, and in addition thereto a further sum not exceeding One Dollar ($1) for each certificate issued upon such registration, transfer, discharge from registration, substitution or exchange and the charges of the Mortgagee, if any.

ARTICLE TWO

REDEMPTION OF CERTIFICATES

SECTION 1. The Mortgagor may at its option, the intention to exercise which shall be evidenced by a written notice signed by its President, a Vice-President or Treasurer and filed with the Mortgagee not less than sixty (60) days preceding the date designated in such notice as the time of redemption (which date shall be the next interest payment date), and a copy of which notice shall at the same time be filed by the Mortgagor with the bankers, hereinafter designated, prepay and redeem on any such next interest payment date, all or any part of the certificates at the time outstanding hereunder, in the manner herein provided, upon payment to or for account of the bearers or registered holders thereof of the following percentages of principal amount of said certificates so to be prepaid and redeemed, with accrued interest to the date fixed for such redemption, to wit: 103% for all certificates redeemed to and including January 1, 1931; 102% for all certificates redeemed thereafter and to and including January 1, 1939; 101% for all certificates redeemed thereafter and to and including July 1, 1946, and 100% for all certificates redeemed thereafter and to and including January 1, 1947.

Whenever the Mortgagor shall have determined to redeem all or any part of such certificates, as aforesaid, it will endeavor to give prompt notice of such intention to the Bankers hereinafter designated for their information, it being understood, however, that such notice to the Bankers shall not be a condition precedent to nor shall defects therein affect the validity of any redemption or call therefor.

SECTION 2. (Designation by lot by mortgagee and giving of notice by mortgagor to certificate holders).

SECTION 3. (Mortgagee not obligated to give notice unless adequate moneys are deposited to redeem certificates).

SECTION 4. (Certificates called shall cease to draw interest after the redemption date).

SECTION 5. (Payment of certificates on surrender to mortgagee and cancellation and in consideration thereof.

SECTION 6. Upon the deposit of the amount necessary to accomplish the redemption of all certificates outstanding hereunder on a specified redemption date, as in this Article provided, and the furnishing to the Mortgagee of

(1) Proof satisfactory to it that notice of redemption of said certificates on said redemption date has been filed and published in the manner herein provided; or

(2) Proof satisfactory to the Mortgagee that arrangements have been made insuring to the satisfaction of the Mortgagee that such notice will be so filed and published;

and if all other sums payable hereunder shall have been paid to the Mortgagee, the Mortgagee shall cancel and surrender said bonds and mortgages and execute and deliver to the Mortgagor such instruments of satisfaction and discharge as may be necessary to evidence the satisfaction of record of this agreement and said mortgages.

SECTION 7. The retirement of any certificate or certificates, whether by redemption thereof or by purchase or surrender thereof for cancellation through the operation of the sinking fund or otherwise, shall operate as and shall constitute payment to the extent of the expressed principal amount of such certificate or certificates in reduction of the principal amount remaining due upon said bonds and mortgages and this agreement.

ARTICLE THREE

SINKING FUND

SECTION 1. In order to provide for the payment of interest upon said bonds, mortgages and certificates and to provide for the reduction from time to time of the indebtedness thereby and hereby evidenced, either by the purchase or redemption of certificates which may be issued by the Mortgagee under the provisions of Article One of this agreement, and which may be then outstanding, or otherwise, the Mortgagor covenants that it will establish a trust fund, to be known as a "sinking fund," to be computed and to be used in the manner and for the purposes hereinafter specified.

SECTION 2. The Mortgagor covenants that it will deposit with the Mortgagee to the credit of said sinking fund cash and/or certificates then outstanding, taken at the expressed principal amount thereof, equivalent to the amounts and at the times hereinafter specified, to-wit:

(4) On or before the first day of May, 1933, and on or before first day of each month thereafter, to and including October 1, 1927, the sum of $3,000 per month;

(2) On or before the first day of November, 1927, and on or before the first day of each month thereafter, to and including July 1, 1930, the sum of $4,000 per month;

(3) On or before the first day of August, 1930, and on or before the first day of each month thereafter, to and including April 1, 1933 the sum of $5,000;

(4) On or before the first day of May, 1933, and on or before the first day of each month thereafter, to and including August 1, 1933 the sum of $5,000;

(5) On or before the first day of September, 1935, and on or before the first day of each month thereafter, to and including August 1, 1937 the sum of $7,000;

(6) On or before the first day of September, 1937, and on or before the first day of each month thereafter, to and including July 1, 1939, the sum of $8,000;

(7) On or before the first day of August, 1939, and on or before the first day of each month thereafter, to and including March 1, 1941 the sum of $9,000;

(8) On or before the first day of April, 1941, and on or before the first day of each month thereafter, to and including October 1, 1924 the sum of $10,000;

(9) On or before the first day of November, 1942, and on or before the first day of each month thereafter, to and including February 1, 1944, the sum of $11,000;

(10) On or before the first day of March, 1944, and on or before the first day of each month thereafter, to and including June 1, 1945 the sum of $12,000;

(11) On or before the first day of July, 1945, and on or before the first day of each month thereafter, to and including October 1, 1946, the sum of $13,000;

(12) On or before the first day of November, 1946, the sum of Fourteen Thousand Dollars ($14,000);

(13) On or before the first day of December, 1946, the sum of Fourteen Thousand Dollars ($14,000);

(14) On or before the first day of January, 1947, such sum as shall equal the aggregate expressed principal amount of all of said certificates, if any, then outstanding hereunder;

(15) At least forty-five (45) days preceding each interest payment date other than the date upon which said certificates are expressed to mature, if the Mortgagee shall then have in its hands funds applicable to the redemption of certificates under the provisions of Section 3 of this Article, such sums as shall be necessary to pay any premiums by reason of the application of such moneys in said sinking fund to the redemption of certificates as hereinafter set forth;

(16) On or before the 25th day of June and the 25th day of December in each year, commencing on the 25th day of June, 1927, an amount sufficient to pay in full all interest warrants becoming payable on the then next interest payment date;

provided, nevertheless, that anything hereinbefore to the contrary, each deposit to the credit of said sinking fund required to be made under the provisions of subparagraphs (15) and (16) of this Section, shall be made in cash.

SECTION 3. Any cash deposited to the credit of the sinking fund, other than cash deposited on and after July 1, 1946, which shall be held by the Mortgagee and applied to the payment of all outstanding certificates and of said bonds and mortgages at maturity thereof, with accrued interest thereon, shall be held by the Mortgagee as a special fund and applied by it as follows:

First. All deposits made under the provisions of sub-paragraph (15) of said Section 2 shall be used and applied for the purposes in said sub-paragraph specified;

Second. All deposits made under the provisions of sub-paragraph (16) of said Section 2 shall be forthwith set aside for and shall be applied to the payment of the interest warrants payable on the interest payment date next succeeding the date of such deposit; and

Third. Cash otherwise deposited shall be applied to the reduction of said indebtedness upon said bonds and mortgages and this agreement through the purchase from time to time during a period expiring forty-five (45) days before the then next ensuing interest payment date (at prevailing market price but not exceeding the price at which such certificates would be redeemable for the sinking fund on said then next ensuing interest payment date), of such outstanding certificates as shall be tendered to the Mortgagee by the Bankers hereinafter designated or by others if tendered on more favorable terms than by the Bankers, or if the Bankers shall not make tenders. Any such funds so deposited, and not applied by the Mortgagee during a period expiring forty-five (45) days before the then next interest payment date ensuing such deposit, if equal to or exceeding the sum of Ten thousand Dollars ($10,000), shall be applied by the Mortgagee to the redemption in the manner herein prescribed of outstanding certificates on the then next ensuing interest payment date to an amount sufficient to exhaust as nearly as may be said funds, in the following manner: The Mortgagee shall from all certificates outstanding, not less than thirty-five (35) days nor more than forty-five (45) days prior to such interest payment date, designate by lot in usual manner from all certificates outstanding a sufficient number thereof in expressed princi-

pal amount to exhaust as nearly as may be said funds, and thereupon shall forthwith give notice to the Mortgagor to that effect, specifying the numbers of the Certificates to be redeemed, and the Mortgagee shall thereupon give notice of redemption as hereinafter provided, at the expense of the Mortgagor. Such notice having been published as hereinafter provided, the certificates so designated for redemption shall on the date and at the place designated in such notice become due and payable at the redemption price and from and after the date fixed for such redemption interest on said certificates so designated for redemption shall cease and the interest warrants maturing subsequent to that date shall be void and thereafter the bearers or registered holders of such certificates shall look for their payment solely to the amount so held by the Mortgagee and applicable thereto, and upon surrender at the principal office of the Mortgagee in the Borough of Manhattan, City of New York, in accordance with said notice, of the certificates therein specified together with all interest warrants thereunto appertaining maturing on and after the date of redemption, the same shall be paid by the Mortgagee out of the moneys so held by it applicable thereto, at the redemption price.

SECTION 4. The Certificates shall be subject to redemption through the operation of the sinking fund provided for in this Article, on any interest payment date to and including January 1, 1931, upon payment therefor of one hundred three per cent (103%) of the expressed principal amount thereof and accrued interest thereon, and thereafter and to and including January 1, 1939, upon payment of one hundred two per cent (102%) of the expressed principal amount thereof and accrued interest thereon, and thereafter and to and including July 1, 1946, upon payment of one hundred one per cent (101%) of the expressed principal amount thereof and accrued interest thereon and thereafter and to and including January 1, 1947, upon payment of one hundred per cent (100%) of the expressed principal amount thereof and accrued interest thereon.

SECTION 5. (Directions for giving notice of redemption of certificates through operation of sinking fund).

SECTION 6. (Decision of mortgagee shall govern as to notice).

SECTION 7. (Cancellation of redeemed certificates)

SECTION 8. If at the time of the making of any deposit to the credit of the sinking fund as in this Article provided there shall be outstanding any certificates issued under this agreement, any moneys so deposited shall be deemed additional collateral security for the indebtedness secured by said bonds and mortgages and by this agreement until set aside in trust for the payment of interest or applied to the purchase of certificates or set aside and reserved for the redemption of certificates as herein provided, and all such sums when so set aside and reserved, and not prior thereto, shall be considered and credited by the Mortgagee as payments on account of the interest on said bonds and mortgages and under this agreement to the extent that said funds shall be applied, set aside and reserved for the payment of interest and as payments upon the principal amount expressed in all certificates deposited for the account of said sinking fund and/or so purchased and/or so called for redemption under the provisions of this Article. All reductions of the principal of said bonds and mortgages and of this agreement shall be noted on said bonds and mortgages by the Mortgagee.

ARTICLE FOUR

COVENANTS OF THE MORTGAGOR

SECTION 1. (Mortgagor covenants principal and interest shall be a first lien on premises and for payment at maturity).

SECTION 2. (Usual covenants to reimburse residents of Kentucky, Massachusetts, Maryland, Minnesota or Michigan or District of Columbia for all taxes other than estate, succession or inheritance taxes).

SECTION 3. (The Mortgagor further covenants):

(a) (Covenants warranty of title.)
(b) (To make repairs and replacements.)
(c) (Against sale or disposition of mortgage and property.)
(d) (To pay and discharge all taxes, assessments, etc.)
(e) To comply with legislative acts and judicial decrees;
(f) Continue to maintain its corporate existence;
(g) That it will not consolidate or merge with any other corporation in any manner whereby this agreement or the lien of said bonds and mortgages upon the mortgaged premises shall be in any manner impaired;
(h) That it will at all times permit the Mortgagee to enter upon the mortgaged premises and all parts thereof for the purpose of investigating and inspecting the condition thereof.

SECTION 4. The Mortgagor further covenants and agrees that proper books of record and account will be kept in which full, true and proper entries will be made of all dealings and transactions of or in relation to the mortgaged premises and the affairs of the Mortgagor.

The Mortgagor further covenants and agrees that it will, until the payment in full of the indebtedness secured by said bonds and mortgages, furnish (1) to the Bankers hereinafter designated and to the Mortgagee, within ninety (90) days from and after the close of each calendar year, beginning with the calendar year, 1927, full audits and reports made by a certified public accountant, satisfactory to the Mortgagee and to the Bankers, covering the operations of the Mortgagor for the then next preceding calendar year, showing in such detail as the Mortgagee and said Bankers may require, the financial condition of the Mortgagor on the last day of such preceding calendar year, its income account, assets and liabilities, gross earnings and expenses. The Mortgagee shall be under no duty with regard to any such statement, balance sheet, audit, report or other instrument furnished to it pursuant to this Section except to retain the same for the inspection and benefit of the holders of certificates then outstanding.

SECTION 5. (Covenant covering section 6—application of proceeds in case property is taken by Eminent Domain.)

(a) (carry fire insurance on buildings.)
(b) That it will promptly procure or cause to be procured, and will maintain while any of the indebtedness secured by said bonds and mortgages remains unpaid, in good responsible companies selected or approved by the Bankers, hereinafter designated, insurance upon the mortgaged premises and/or the operation thereof against liability under any workmen's compensation law, against public liability,

casualty and elevator, accident and plate glass breakage, and rent and boiler insurance;

(c) To carry workmen's compensation, casualty, elevator, accident, plate glass and rent and boiler insurance. Proceeds of insurance to be paid to mortgagee.

SECTION 7. (Mortgagee to act as "Registrar.")

SECTION 8. (Provision as to right of mortgagee to defray taxes, etc., unpaid by mortgagor.)

ARTICLE FIVE

DEFAULTS AND REMEDIES THEREON

SECTION 1. (Mortgagee to act for certificate holders in event of a default.)

SECTION 2. If any one or more of the following events, herein called "events of default," shall happen, that is to say:

(a) Default shall be made in the payment of any interest on said bonds and mortgages and this agreement when the same shall become due and payable, as herein and therein expressed, and such default shall continue for a period of (30) days; or

(b) Default shall be made in the payment of the principal of said bonds and mortgages and this agreement or the certificates issued hereunder when the same shall become due and payable by lapse of time, by call for redemption, by declaration or otherwise; or

(c) Default shall be made in the deposit of any installment of the sinking fund created by Article Three of this agreement, and such default shall continue for a period of thirty (30) days; or

(d) Default shall be made in the deposit with the Mortgagee of the redemption money for any certificates called for redemption by the Mortgagor at or upon the redemption date specified in the redemption notice; or

(e) Default shall be made in any other covenant in this agreement contained and such default shall continue for a period of three (3) months after written notice thereof from the Mortgagor, which may serve such notice in its own behalf and shall serve the same at the written request of the holders of at least ten per cent (10%) on principal amount of the certificates then outstanding hereunder; or

(f) The Mortgagor or the then owner of the mortgaged premises, as the case may be, shall be adjudged bankrupt or insolvent, or a receiver shall be appointed of the property of the Mortgagor, or of any substantial part thereof, and such receiver shall not be discharged within sixty (60) days after such appointment; or

(g) The Mortgagor or the then owner of the mortgaged premises, as the case may be, shall file a petition for voluntary bankruptcy or make a general assignment for the benefit of creditors;

then and in every such event the Mortgagee may, and upon the written request of the bearers or registered holders of not less than a majority

in expressed principal amount of the certificates then outstanding hereunder, and upon being identified to its satisfaction, shall declare the principal of said bonds and mortgages and of all certificates then outstanding hereunder to be due and payable immediately, and upon any such declaration the principal of said bonds and mortgages and this agreement and the principal amount expressed in all certificates then outstanding shall become and be due and payable, anything in said bonds and mortgages or in this agreement or said certificates to the contrary notwithstanding, but nothing in this Section contained shall be construed as giving to said certificate holders any other or different right than the right to receive as in said ceritficates and in this agreement expressed the amount properly apportionable and applicable to such certificates respectively out of sums collected and received by the Mortgagee under or upon said bonds and mortgages and this agreement and the insurance policies and other instruments and evidences of title held by the Mortgagee hereunder.

SECTION 3. (Authorization of mortgaged property in the event of default.)

SECTION 4. (Authorization of mortgagee to bring suit in equity in the event of a default.)

SECTION 5. The Mortgagor further covenants that, in the event of the appointment of any receiver of the mortgaged premises, or any part thereof, hereunder or under said mortgages, or in the event of any sale as an entirety or substantially as an entirety of the mortgaged premises under the power herein granted, or at foreclosure or otherwise, it will at once assign, deliver and make available to any such receiver or purchaser all materials intended to be used in and about said buildings, the leases thereon, and the books, records, instruments and documents by it held and used in and about the conduct of the business of operating the mortgaged premises.

SECTION 6. (Sale by mortgagee to divest mortgagor of all right, title and interest.)

SECTION 7. (Certificate holders may purchase property at mortgage sale and apply their certificates in proportionate payments.)

SECTION 8. (No remedy conferred on mortgagee shall be exclusive of other remedies.)

SECTION 11. If and so soon as

(a) The Mortgagor shall have called for redemption all certificates issued and outstanding hereunder, pursuant to the provisions of Article Two hereof, and shall have deposited moneys with the Mortgagee sufficient to accomplish such redemption as in said Article Two provided; or

(b) The Mortgagee shall have drawn any certificate or certificates for redemption and shall have commenced publication of notice of such redemption, all as in Article Three of this agreement provided; or

(c) The mortgaged premises shall have been sold, pursuant to the power in this Article contained, or pursuant to any decree of foreclosure or otherwise, in enforcement of the lien of said bonds, mortgages and this agreement, and the purchase money shall have equalled all amounts then due hereunder and under all of the certificates then outstanding and shall have been received by the Mortgagee; or

(d) The Mortgagor shall have paid to the Mortgagee when due, whether by maturity, call for redemption or declaration the principal of all said certificates then outstanding, and all interest thereon;

then and in every such case the money deposited with or held by the Mortgagee, shall, to the extent requisite, without further act be deemed forthwith to be set aside and reserved for the benefit of the holders of such certificate or certificates and the interest warrants thereto appertaining so called for redemption as mentioned in subparagraphs (a) and (b) of this Section, or to be set aside and reserved for the benefit of all the holders of certificates and interest warrants thereto appertaining then outstanding hereunder as mentioned in subparagraphs (c) and (d) of this Section, as the case may be, and such reservation of such sums shall constitute full payment of the share or shares in said bonds, mortgages and this agreement represented by the certificate or certificates and interest warrant or interest warrants thereto belonging for which said reservation is so made as between the Mortgagor and the holder or holders thereof. Sums so reserved in the hands of the Mortgagee shall constitute a trust fund and shall be paid out to the holder or holders of the certificates and interest warrants thereto appertaining for which said reservation shall have been so made, upon presentation of such certificate or certificates and all unpaid interest warrant or warrants thereto appertaining to the Mortgagee for cancellation, but no interest shall accrue upon said funds so reserved after the reservation thereof and prior to the presentation of such certificate or certificates or interest warrant or warrants as aforesaid. Upon the setting aside or reserving of funds under the provisions of this Section, certificates and interest warrants appertaining thereto for which said funds are so set apart and reserved, shall be excluded from participation in the lien and security afforded by the bonds and mortgages and this agreement, and the bearers or registered holders thereof shall look for payment of such certificates and interest warrants only to the funds so set apart and reserved in the hands of the Mortgagee, and in no event to the Mortgagor or to the mortgaged premises.

SECTION 12. (Notice by mortgagor or mortgagee to the other may be by mail.)

SECTION 13. (Rights of majority of certificate holders to control time and place of sale, etc. and provision for waiver by mortgagee of default.)

ARTICLE SIX

RELEASES OF MORTGAGED PREMISES

SECTION 1. (Conditions and procedure for release of mortgaged premises.)

ARTICLE SEVEN

RESPECTING THE MORTGAGEE

SECTION 1. (Mortgagee shall not be responsible for recitals in indenture or certificates for filing, validity of bonds, etc.)

SECTION 2. (Mortgagee may act through agents and employ counsel and their compensation shall be payable by mortgagor.)

SECTION 3. (Mortgagee shall not be required to take action to enforce covenants unless requested in writing by a majority of certificate holders upon their furnishing satisfactory indemnity.)

SECTION 4. (Mortgagee shall not be responsible for action taken by it in good faith.)

SECTION 5. (Mortgagee is protected if it acts on advice of qualified experts.)

SECTION 6. The Mortgagee is authorized at any time to permit the Bankers, hereinafter designated, or any certificate holder to inspect any statement or other document filed with it by the Mortgagor.

SECTION 7. The Mortgagee shall be entitled to reasonable compensation for all services by it rendered hereunder (which shall not be limited to the compensation of trustee of any express trust as provided by law) and the Mortgagor agrees to pay from time to time upon demand such compensation.

SECTION 8. Any moneys received by the Mortgagee under any provision of this agreement shall be treated by it until it is required to pay out or set aside the same conformably herewith as a general deposit without any obligation or liability for interest, save as may otherwise be agreed upon in writing by the Mortgagor and the Mortgagee.

SECTION 9. The Mortgagee shall have a first lien hereunder upon the bonds and mortgages and any cash or other property at any time in its hands hereunder for its reasonable compensation, advances, expenses and counsel fees incurred in and about the performance of its powers and duties hereunder and under said bonds and mortgages, and the costs and expenses of defending against any liability in the premises of any character whatsoever, and the Mortgagor hereby covenants and agrees to pay unto the Mortgagee all advances, counsel fees and other expenses reasonably made or incurred in and about the performance of such duties and powers.

SECTION 10. (If mortgagee is consolidated or otherwise acquired the consolidated company as a purchaser will become successor mortgagee.)

ARTICLE EIGHT

POSSESSION UNTIL DEFAULT AND DEFEASANCE

SECTION 1. Unless default shall have been made in the due and punctual payment of the principal of or interest on the bonds and mortgages consolidated hereby or of the certificates issued under this agreement, or in the due and punctual performance and observance of some covenant, condition or agreement in said bonds or mortgages or in this agreement contained obligatory upon the Mortgagor, and unless such default shall have continued beyond the period of grace, if any, hereinbefore provided in respect thereof, the Mortgagor shall be suffered and permitted to retain actual possession and control of the mortgaged premises and, subject to the provisions of said bonds and mortgages and of this agreement, to manage, operate and use the same and every part thereof, with the rights and privileges pertaining thereto, and subject to the limitations herein expressed, to collect, receive, take, use and enjoy the earnings, income, rents, issues and profits thereof.

SECTION 2. In the event that the Mortgagor, its successors or assigns, shall well and truly pay or cause to be paid the whole amount of the principal and interest of the indebtedness by said mortgages and bonds secured, at the times and in the manner in said bonds and mortgages and in this agreement provided, or shall provide for such payment by depositing with the Mortgagee for such purpose the entire amount due and to become due and payable on said bonds and mort-

gages and this agreement for both principal and interest, or in the event that said entire amount shall be otherwise paid or discharged and all sums due and payable to the Mortgagee hereunder by the Mortgagor shall have been duly paid and discharged, then and in such event and although certificates and interest warrants may be then outstanding, the premises and property hereby mortgaged shall revert to the Mortgagor, its successors and assigns, and all right, title and interest of the Mortgagee therein shall cease and determine, and the Mortgagee, on demand of the Mortgagor, its successors or assigns, and at its or their expense, shall deliver proper release and satisfaction of said mortgages and this agreement. Cash so deposited with the Mortgagee shall be set aside and reserved by it for the payment of certificates and interest warrants then outstanding and shall be paid out upon surrender of such certificates and interest warrants for cancellation, and said certificates and interest warrants shall upon any such deposit cease to be entitled to any rights or benefits under this agreement or said bonds and mortgages.

SECTION 3. All certificates and interest warrants paid or surrendered to or deposited with the Mortgagee for cancellation under any provision of this agreement shall be canceled by the Mortgagee and incinerated by it, and no certificates or interest warrants shall be issued in lieu thereof, save and except as otherwise provided in Section 6 of Article One of this agreement and in the case of temporary certificates and certificates surrendered in exchange for other certificates of different denominations.

SECTION 4. Any funds remaining in the hands of the Mortgagee at or after satisfaction and discharge of this agreement not appropriated to the payment of interest, premium or principal of the certificates issued hereunder or of the proper expenses of the Mortgagee, shall be forthwith paid over to the Mortgagor, its successors or assigns.

ARTICLE NINE

(COVENANTS ARE STRICTLY CORPORATE OBLIGATIONS AND BIND MORTGAGOR ONLY.)

ARTICLE TEN

(MANNER OF ESTABLISHING OWNERSHIP OF CERTIFICATES.)

ARTICLE ELEVEN

LIMITATION OF RIGHTS OF CERTIFICATE HOLDERS, AND PRIORITY OF BONDS AND MORTGAGES

SECTION 1 Every bearer and registered holder of certificates by acceptance thereof irrevocably appoints the Mortgagee as his agent to collect, sue for and receive, by foreclosure or otherwise, the principal and interest secured by said bonds and mortgages, to satisfy and discharge said bonds and mortgages and this agreement in its own name upon receiving full payment thereof, and to collect, sue for and receive and settle or compromise any insurance in case of loss, and to exercise every right, option or privilege contained in said bonds and mortgages and in this agreement, and every right of action upon or in respect to any default under said bonds, mortgages and this agreement or upon any insurance policies or other instruments of assurance or security or for the enforcement of any of the covenants herein contained or otherwise, unless the bearers or registered holders of a majority in principal amount of the certificates shall so request in writing and shall furnish to the Mortgagee security satisfactory to it, but in case the Mortgagee shall be indemnified as aforesaid, it may and when requested in writing by the bearers or registered holders of a majority in principal amount of the certificates it shall forthwith take such appropriate and judicial proceedings by action, suit or otherwise in respect of any such default as it may deem most expedient in the interest of the bearers or registered holders of said certificates.

SECTION 2. No priority is hereby created or shall exist by reason of the bonds and mortgages hereby merged and consolidated bearing different dates, maturing at different times, being for different principal amounts or varying as to the terms thereof, but the indebtedness, as so co-ordinated, extended and consolidated in and by this agreement, shall be construed as though said bonds and mortgages evidenced a single indebtedness, contracted at one time, and contemporaneously secured by these presents.

ARTICLE TWELVE

(GENERAL PROVISIONS)

IN WITNESS WHEREOF the parties hereto have caused these presents to be executed in quadruplicate by their proper officers thereunto duly authorized, and their corporate seals to be hereunto affixed and duly attested as of the day and year first above written.

GENUNG REAL ESTATE CORPORATION

By.....

COSMOPOLITAN TRUST COMPANY

By.....

SECTION NINE

STATUTORY REGULATIONS

FILING AND RECORDING

The procedure for filing and recording certificates of incorporation varies considerably in the different states. Certain notable differences in procedure afford a basis for rough classification. Thus under the Delaware procedure, followed by a number of states, the charter is first filed with the Secretary of State and then recorded with the county recorder. In New Jersey the Delaware procedure is reversed. The certificate of incorporation is first recorded with the county clerk and then filed with the Secretary of State. In Florida the sole requirement is the filing with the Secretary of State. Some states have procedures peculiar to themselves which exclude them from any categorical grouping.

The procedure of incorporation in all the states is briefly outlined in the following alphabetical tabulation:

Alabama. This state has peculiar provisions of its own. It requires the filing and recording of the certificate of incorporation in the office of the Probate Judge of the county in which the principal place of business of the corporation is established. The Probate Judge then files the name and details concerning the corporation with the Secretary of State.

Arizona. This state requires the filing of articles in the office of the State Corporation Commission. The certified copy of the articles must then be filed in the office of the County Recorder in each county of the state where the corporation is to transact business. Publication of articles and filing of affidavit of publication with the State Corporation Commission completes the procedure.

Arkansas. Procedure practically identical with that of New Jersey.

California. Procedure practically identical with that of New Jersey.

Colorado. Procedure similar to that of Delaware and New York. Certificate is first filed with the Secretary of State. The duplicate of the original certificate must then be filed and recorded in the office of the Recorder of each county in which the principal business is to be conducted.

Connecticut. Procedure practically identical with that of Delaware and New York.

Delaware. In this state the certificate of incorporation is first filed with the Secretary of State, and is then recorded with the County Recorder of the county in which the principal office is located or principal business is to be transacted.

Florida. The sole requirement in this state is the filing of the proposed charter, duly acknowledged, in the office of the Secretary of State.

Georgia. The persons desiring the charter must file in the office of the Clerk of the Superior Court of the county in which they wish to transact business, a petition or declaration for a charter. After the granting by the Court of the order of incorporation, the petition and said order are recorded by the Court Clerk. A certified copy of this petition and order under the seal of the Court is evidence of such incorporation in any court in the state.

Idaho. Procedure practically identical with that of Delaware, except that the proper county officer with whom to file the certificate is the Recorder of the County.

Illinois. Procedure practically identical with that of Delaware.

Indiana. Procedure practically identical with that of Delaware and New York, except that duplicate signed articles, duly acknowledged, must be filed in the office of the County Recorder.

Iowa. Procedure identical with that of New Jersey, except that the proper county official with whom to file the certificate is the Recorder of Deeds.

Kansas. Application forms for certificate of incorporation must be procured from the Charter Board. After approval and endorsement by member of charter board, application is filed and recorded by the Secretary of State.

Kentucky. Procedure practically identical with that of New Jersey.

Louisiana. Procedure practically identical with that of New Jersey, except that the certificate of incorporation may be filed with the Recorder of Mortgages.

Maine. This state, like Massachusetts and New Hampshire, has a procedure whereby the organization meetings of signers of the articles are held in advance of the filing of the certificate of incorporation with the Secretary of State.

Maryland. Certificate of incorporation is recorded with state tax commission and certified copy filed with Clerk of the Circuit or Superior Court.

Massachusetts. Procedure practically identical with that of Maine.

Michigan. Articles of association in triplicate must be sent to the office of the Secretary of State where the original will be filed and two copies returned to the incorporators, one of which copies

must then be filed in the office of the County Clerk where the company is located.

Minnesota. Procedure similar to that of Delaware and New York, except that this state requires a publication of the certificate and a filing of an affidavit of publication with the Secretary of State.

Mississippi. This state has an original procedure whereby a blank form of application for a charter is forwarded upon request by the Secretary of State. This blank, when filled out and duly acknowledged, must be filed with the Secretary of State. The Attorney General then examines the same and, if endorsed by him, it is then referred to the Governor for approval. The Governor next returns it to the Secretary of State with his action expressed thereon. A copy must be published in a newpaper once, within 30 days. The Secretary of State records the instrument and it is then sent to be recorded in the Chancery Clerk's office of the county in which the principal office or place of business of the corporation is to be located.

Missouri. Procedure similar to that of Delaware and New York, except that duplicate articles of agreement, duly acknowledged, are filed in the office of the Secretary of State. One of these is retained as a permanent file by the Secretary of State. The certified copy of the articles and the copy so returned are then filed and recorded in the office of the Recorder of Deeds of the county in which the corporation is to be located.

Montana. Procedure practically identical with that of New Jersey.

Nebraska. Procedure practically identical with that of Delaware and New York, except that this state requires notice to be published for four weeks in the locality of the principal place of business.

Nevada. Procedure practically identical with that of Delaware and New York.

New Hampshire. Procedure practically identical with that of Maine.

New Jersey. In this state the Delaware procedure is reversed. The certificate of incorporation is first recorded with the County Clerk of the county in which the principal or registered office is to be located. The certificate with the County Clerk's stamp, showing that it has been recorded in his office, is then filed with the Secretary of State.

New Mexico. The State Corporation Commission must receive an original and a copy of the articles and certify the copy. The certified copy is then filed in the office of the Recorder of the principal place of business of the corporation.

New York. The procedure is identical with that of Delaware, except that the county official in New York is termed "County Clerk" instead of "County Recorder."

North Carolina. Procedure similar to that of Delaware and New York, except that the certified copy of the certificate of incorporation is filed in the office of the County Clerk of the Superior Court.

North Dakota. Procedure practically identical with that of Florida.

Ohio. Procedure practically identical with that of Florida.

Oklahoma. Filing and recording with Secretary of State.

Oregon. This state requires triplicate articles of association to be filed in the office of the State Corporation Commissioner, then duplicate original articles must be filed and recorded in the office of the County Clerk.

Pennsylvania. This state has a peculiar procedure of its own. In Pennsylvania a notice by publication of the date on which application for charter will be made is required. Then a filing with the Secretary of State of certificate, duly acknowledged, and an affidavit of publication of notice must be made. The certificate accompanying the proof of publication of notice is then sent to the Governor, and if approved by him, letters patent are issued. Recording of the certificate in the office of the Secretary of State is the next step, and a recording in the office of the Recorder of Deeds culminates the procedure.

Rhode Island. Original and duplicate certificates, together with a certificate of the General Treasurer that fees have been paid, are filed with the Secretary of State.

South Carolina. Procedure is practically identical with that of Florida.

South Dakota. Filing and recording of articles of incorporation with Secretary of State and issuance by the Secretary of State of certificate of incorporation.

Tennessee. Procedure practically identical with that of New Jersey, except that the county official with whom the certificate is to be filed bears the title of Register.

Texas. Charter must be filed with the Secretary of State after payment of initial fees and an affidavit by the incorporators giving particulars as to issue of capital stock must accompany the charter.

Utah. Procedure practically identical with that of New Jersey.

Vermont. Procedure practically identical with that of Delaware and New York.

Virginia. Payment of initial fees must be made to State Corporation Commission and certificate of incorporation presented to Corporation Commission together with receipt of public auditor, and the Commission then issues an order, attached to the certificate, constituting with the certificate the charter proper. Charter is then recorded in office of Secretary of the Commonwealth and transmitted by him to the Clerk of the proper court in which office it is recorded and returned to the office of the Corporation Commission where it is lodged and preserved.

Washington. Procedure similar to that of Delaware and New York, except that triplicate articles of incorporation, duly acknowledged, must be transmitted to the office of the Secretary of State. Duplicate articles must be filed and recorded in the office of the County Auditor.

West Virginia. Procedure practically identical with that of Delaware and New York.

Wisconsin. Procedure practically identical with that of Delaware and New York.

Wyoming. Procedure similar to that of Delaware and New York, except that duplicate articles must be filed in the County Clerk's office. An affidavit of publication of notice must then be filed in the office of the Secretary of State.

MISCELLANEOUS PROVISIONS AFFECTING INCORPORATION

Incorporators—Number Required

In a majority of the states there is a statutory requirement that there shall be three or more incorporators.

In the following states there must be five or more incorporators:

Hawaii
Kansas
Philippine Islands (not exceeding 15)
Tennessee
Utah
West Virginia

In the following states there must be two or more incorporators:

Georgia
Mississippi
South Carolina
Washington

In the following states there may be any number of incorporators (even one):

Arizona
Iowa
Nebraska

Incorporators' Qualifications as to Residence

In a majority of the states no statutory qualification as to residence is imposed.

However, in the following states at least one incorporator must be a resident:

Idaho (2/3 of incorporators must also be U. S. citizens)
Illinois
Missouri
New York (2/3 of incorporators must also be U. S. residents)
Pennsylvania
South Dakota
Utah

In Texas, two incorporators must be residents.

In Wisconsin, all incorporators must be residents.

In the following states, a majority of the incorporators must be residents:

Hawaii
Ohio (and also U. S. citizens)
Philippine Islands

In North Dakota and Oklahoma, one-third of the incorporators must be residents.

Incorporators' Qualifications as to Age

In a majority of the states there are no statutory qualifications as to age, whether the incorporators be natural or artificial persons (corporations), etc.

In Maine and New Jersey, the statutes provide that the incorporators must be natural persons.

In the following states the statutes provide that the incorporators be of full or legal age (usually 21):

Illinois
Maryland
New Hampshire
Rhode Island
Tennessee
Vermont

In the following states the statutes require that the incorporators be both natural persons and of legal age:

Alaska ("full age")
Idaho ("full age")
Indiana
New York
New Mexico

In Massachusetts, Pennsylvania, South Dakota and Utah, the incorporators are required by statute to be subscribers to the capital stock of the corporation.

Execution of Charter

In all the states the charter is required by statute to be signed by the incorporators. In a majority of the states the statutes provide that the signature shall be acknowledged before a notary public or other officer qualified to take acknowledgments.

In the following states, however, no acknowledgment is necessary:

Alabama
Florida
Georgia
Nebraska
South Carolina

In Tennessee the signatures of the incorporators must be acknowledged before the clerk of the County Court.

In Alaska and Indiana there must be an acknowledgment by at least three of the incorporators.

In Hawaii there must be an acknowledgment by the President, Secretary and Treasurer.

When the Corporation May Commence Business

In a majority of the states the statutes provide that the corporation may begin business upon the filing of the articles of incorporation. In the following states there are these added requirements:

Arkansas—"until amount specified to commence business has been paid in."
Connecticut—same as Arkansas.
Hawaii–when three-quarters of shares are subscribed for and 10% of capital stock paid in.
Kansas (also 20% of stock paid into treasury).
Louisiana—full amount of capital paid in.
Minnesota (and affidavit of publication).
Missouri (and 10% of par stock paid in.)
Nebraska (and publication).
North Dakota (and publication).
Wisconsin (also payment of 20% of stock; 50% must be subscribed).

In the following states the corporation may begin business immediately on issuance of the certificate of incorporation:

Arizona
Colorado
Idaho (charter issued and has been filed)
Illinois
Iowa (also publication)
Kentucky (and license tax paid)
New Jersey
Oklahoma (and filing list of stockholders, officers and directors)
Philippine Islands
Porto Rico
South Carolina (charter issued and 50% shares subscribed
South Dakota
Tennessee (file and pay license fee)
West Virginia

In the following states business may be commenced when the following mentioned portions of the capital stock have been paid in:

Alabama	(25%)
Florida	(10%)
Georgia	(10%)
Ohio	(Full capital)
Texas	(50%)
Washington	("all *subscribed*")

The following states have no provision:

Alaska
Indiana
Michigan
Mississippi
Montana

Term of Existence

In a majority of the states, the existence of a corporation is not limited in time. In these states it may be either perpetual or limited to a term set for it in the charter.

However, in many states there is a limitation as to the number of years' existence which a corporation may have. The table follows, the figures denoting the maximum number of years:

Arkansas (99)
Hawaii (50)
Kansas (50)
Mississippi (50)
New Mexico (50)
Philippine Islands (50)
Washington (50)
West Virginia (50)
Wyoming (50)
Montana (40)
Georgia (30) if silent
Michigan (30)
Minnesota (30) and renewable
Arizona (25)
Colorado (20)
Missouri (20)
North Dakota (20)

In Utah the existence may be not less than three nor more than 100 years.
In Ohio the existence of a corporation may be perpetual, except real estate corporations which have a 21-year limitation.

Location of Principal Office

In a majority of the states the statutes require that the principal office of the corporation be located within the state or territory.
In the following jurisdictions it is suffiicient if an agent be appointed to fulfil the above requirements:

District of Columbia (local address necessary)
Minnesota (agent only necessary to receive process)
Nebraska
Nevada (resident agent required)
South Carolina
South Dakota
West Virginia
Wyoming

In Georgia and Hawaii there is no provision covering this point.
In Delaware, the by-laws may provide for the establishment of offices outside the state.

How Capital Must Be Paid

In the majority of jurisdictions the statutes provide that capital stock shall be paid for in money, property, or services rendered.
The following states have additional restrictions:

A. These do not consider "labor or services" as legal considerations:

Iowa
Kansas
Michigan
Minnesota
Mississippi
Philippine Islands
Porto Rico

B. These include, in addition to money, property and services, "leases."

Alaska
Delaware
Nevada

C. Special requirements:

Arkansas: Par Value: "For consideration having value according to board of directors."
No Par Value: "Whatever consideration is expressed in the articles."
District of Columbia (10% must be paid in cash)
Florida: Same as Arkansas.
Iowa: Must be money unless special permission be granted from executive council of the state.
New Jersey: Money only.
New Mexico: Money only.
Hawaii has no provision.

Number of Directors

In a majority of the states the statutes provide that there shall be three or more directors.

In the following states there may be any number:

Arizona
Georgia
Hawaii (no provision)
Iowa (no provision)
Maine (no provision)
Minnesota (no provision)
Mississippi (as provided in by-laws)
Nebraska (no provision)
Oregon (no provision)
Rhode Island (as provided in by-laws)
West Virginia (as provided in by-laws)

In the following jurisdictions the statutes provide that the number of directors shall be not less than a certain number as indicated:

California (not less than 3)
District of Columbia (3-15)
Florida (not less than 3)
Idaho (not less than 3)
Missouri (3-21)
Montana (3-13)
North Dakota (3-15)
Oklahoma (3-11)
Philippine Islands (5-11)
South Carolina (not more than 15)
South Dakota (3-11)
Utah (3-25)
Washington (not less than 2)

Qualifications of Directors

In a majority of the states, there are no statutory provisions which require directors to be residents of the state of incorporation, or citizens of the United States.

In the following jurisdictions, however, the statutes provide that at least one director be a resident of the state:

Alaska	New Hampshire	North Dakota
Arkansas	New Mexico (unless by-laws otherwise direct)	South Dakota
Illinois	North Carolina	Utah

In the following jurisdictions, the number of directors required to be residents of the state is indicated:

Kansas (3)
Pennsylvania (one-third of board)
Oregon (majority of board)
Oklahoma (1-3 officers)
Philippine Islands (2)
Vermont (2)

West Virginia (all unless by-laws otherwise direct)

In the following jurisdictions the statutes provide that a certain number of directors must be citizens of the United States, the number being indicated in parentheses:

Florida (1)
Missouri (1)
Nevada (1)

In the following jurisdictions the particular qualification is indicated:

Minnesota (majority of board of savings banks and building and loan associations must be residents).

New York (one director a resident of New York, and a citizen of the U. S.)

Washington (one director a resident of the state and a majority citizens of the U. S.).

In the following jurisdictions the qualifications of directors as to residence are to be stated in the charter, certificate of incorporation, or by-laws:

Idaho
Indiana
Louisiana
Michigan
Ohio
Rhode Island

The statutes of a majority of jurisdictions require that the directors also be stockholders in the corporation. However, the following jurisdictions have no provision covering the subject:

Arizona	Maine	Nevada
Arkansas	Maryland	New Hampshire
Georgia	Minnesota	Pennsylvania
Hawaii	Mississippi	Texas
Iowa		

In the following jurisdictions the statutes provide that directors shall be stockholders unless the by-laws, certificate of incorporation or charter provide the contrary:

Massachusetts
New Mexico
New York
West Virginia

In the following jurisdictions, the statutes provide that the directors need not be stockholders unless the charter, certificate of incorporation, or by-laws provide the contrary:

California
Delaware
Florida
Idaho
Indiana
Louisiana
Rhode Island
Tennessee

In Kentucky the directors must each own at least three shares of stock, and in the Philippine Islands at least one share each.

In Virginia, the directors need not be stockholders. In Ohio this qualification is left to the articles to direct.

The majority of jurisdictions do not specifically require the directors to be of full age, but in the following they must all be of full age:

Arkansas
Florida
Nevada
Tennessee

Stockholders' Meetings

In a majority of the states the statutes provide that meetings of stockholders shall be held within the state.

In the following states it is required that the meeting be held in the principal office within the state:

Montana
New Jersey
North Carolina
North Dakota
Philippine Islands
South Dakota

In the following states it may be held outside the state or territory:

Alabama (with consent of stockholders)
Alaska
Arkansas
California (at principal office)
Colorado (if provided in charter)
Delaware (if by-laws so provide)
Florida (if by-laws so provide)
Idaho (if by-laws so provide)
Minnesota (if charter or by-laws so provide)
Louisiana
Nevada
New Mexico
Rhode Island (if by-laws so provide)
West Virginia
Wyoming

The following states have no provision bearing on the place of stockholders' meetings:

Arizona	Kentucky	Nebraska
Hawaii	Maryland	Oregon
Iowa	Mississippi	Pennsylvania
		Tennessee

In the District of Columbia, Indiana, Kansas, Massachusetts and Michigan stockholders' meetings may be held as provided in the by-laws.

In North Dakota meetings for election of officers must be held within the state; other meetings may be held outside the state.

In South Carolina one annual meeting must be held within the state.

In Virginia stockholders' meetings must be held at a place within the state fixed by the directors.

Directors' Meetings

In a majority of the states the statutes provide that meetings of directors may be held outside the state:

In the following jurisdictions there are no statutory provisions regulating place of directors' meetings:

Alaska	Kansas	Nebraska
Florida	Missouri	Philippine Islands
Georgia	Mississippi	South Carolina
Hawaii	Montana	Wisconsin

In the following states such meetings may be held within or without the state:

Arkansas
Louisiana
Ohio

In the following jurisdictions directors' meetings may be held as the by-laws prescribe:

Arizona	Iowa	North Carolina
California	Kentucky	Oregon
Connecticut	Maine	Pennsylvania
Delaware	Maryland	South Dakota
District of Columbia	Michigan	Virginia
Idaho	Minnesota	West Virginia
Indiana	New Jersey	Wyoming

In Tennessee directors' meetings of manufacturing companies may be held outside the state by ¾ vote of stockholders.

In Texas, directors' meetings may be held outside the state except in the case of railroad companies.

Cumulative Voting Allowed

Permitted

Alaska	Minnesota	Ohio
Arizona	Mississippi	Pennsylvania
Arkansas	Missouri	Philippine Islands
California	Montana	Porto Rico
Florida	Nebraska	South Carolina
Idaho	Nevada	South Dakota
Illinois	New Jersey	Virginia
Kansas	New Mexico	West Virginia
Kentucky	New York	Wyoming
Michigan	North Dakota	

May be permitted by by-laws or certificate of incorporation

Colorado	Louisiana	North Carolina
Delaware	Maine	Rhode Island
Indiana	Maryland	Tennessee
		Utah

No Provision

Alabama	Iowa	Texas
Connecticut	Massachusetts	Vermont
District of Columbia	New Hampshire	Washington
Georgia	Oklahoma	Wisconsin
Hawaii	Oregon	

Amount of Capital Stock Authorized

In a majority of the states the statutes provide that the capital stock authorized may be any amount.

In the following jurisdictions the statutes provide that the authorized capital shall be not less than the amounts noted in parentheses:

Alabama	($2,000)	
California	(500)	
Connecticut	(2,000)	
Illinois	(1,000)	
Maine	(1,000)	
Massachusetts	(1,000)	
Missouri	(2,000)	
Nevada	(2,000)	(no par, $1000 subscribed)
New Hampshire	(1,000)	(no par not less than 10 shares)
New Jersey	(2,000)	
New Mexico	(2,000)	
Ohio	(500)	
Porto Rico	(2,000)	
Vermont	(500)	

In Minnesota the minimum amount of capital stock authorized is $10,000 except in the case of manufacturing and / or mechanical corporations, in which case the amount is unlimited.

In Pennsylvania the amount authorized is unlimited, but in practice the amount is a minimum of $5,000.

In Washington the capital stock may be issued to "bona fide subscribers" only.

In Indiana the capital stock may be paid for in cash or as specified in the charter.

Provisions Respecting Par Value

In the majority of jurisdictions the statutes provide that stock may be issued for any amount of par value, or for no par value.

In the following jurisdictions the statutes provide that stock shall be issued for a par value of not less than the amount stated in parentheses (unless otherwise stated) as well as for no par:

Arkansas ($5.00)
Colorado (not over $100)
Connecticut ($5.00)
Florida ($10.00)
Illinois ($5.00-$100)
Massachusetts ($5.00)
Missouri ($25.00)
New Hampshire ($5.00-$1,000)
Pennsylvania (not more than $100)
Tennessee (not more than $100)
Vermont (not more than $100) (no par not less than 10 shares)

In the following jurisdictions the stock may be issued for any par value, but there is no provision for the issue of non-par stock.

District of Columbia
Hawaii
Montana
North Dakota
Oklahoma
Porto Rico

In Kansas, stock may be issued as fixed by charter, or on a non-par value basis.

In Nebraska no non-par stock may be issued; there is no provision limiting the value of par stock.

Stock Classifications

In the majority of the states the statutes provide that there may be any number of classes of stock, or else have no limitation.

In the following jurisdictions the statutes set a limit to the number of classes of stock, as indicated by the figures:

Alabama (2 or more)
Florida (3, if stated in Certificate of Incorporation)
Missouri (issue of preferred requires consent of all stockholders)

TABLE OF BOOKS OF ACCOUNT

The following Table shows the chief statutory provisions in each jurisdiction governing the keeping of corporate books of account. It has been compiled as of January 1, 1930 and the likelihood of subsequent changes should be kept in mind. The Table should be read in conjunction with the Table of Corporate Activities Records and also with the Table of Reports Other Than Tax Reports. The latter table will sometimes be found to contain some matter also included in the table herewith, especially in regard to financial statements, as such statements are often by their nature both reports and records required to be filed or kept in the corporation's office.

Alabama

No provision.

Alaska

Books of Account of business transactions, or full transcriptions thereof, must be kept at principal office in Alaska in custody of proper officer who must produce same within 5 days of demand by any stockholder for inspection. *Penalty*: Officer designated by by-laws, or president, must pay $50 for each day of neglect to keep books and permit inspection, to be recovered by stockholder.

Arizona

No provision.

Arkansas

No provision.

California

Every corporation must keep a record of all its business transactions. *Statement to Stockholders.* At the written request of 10% or more of the stockholders presented not less than 2 weeks prior to the annual election, there must be served on each stockholder at least one week prior to such election a copy of a financial statement showing (1) authorized capital; (2) capital subscribed; (3) paid in capital; (4) assets, surplus and undivided profits; (5) amount paid to employees; (6) names and addresses of all officers and directors; (7) amount of mortgages, bonded or other indebtedness; (8) amount of last dividend; (9) general summary of business transacted since last annual meeting. This statement must be signed and sworn to by the president and secretary and delivered or mailed to stockholder. *Penalty*: An officer who signs a false financial statement is guilty of a misdemeanor.

Colorado

1. *Books of Account.* Directors or trustees must keep at principal office or place of business in Colorado correct books of account, and stockholders shall have the right at all reasonable times, to inspect all books, accounts and papers of the corporation and to take copies

thereof, but not remove from the office. *Penalty*: For refusal of officer, clerk, agent or cashier to allow inspection on written demand of stockholder, or for destroying or concealing such records, is $200 to be recovered by aggrieved person, and he shall also be guilty of a misdemeanor.

2. *Statement of Affairs to Stockholders.* Whenever any person or persons owning 15% of the stock of a corporation present a written request to the secretary, cashier or treasurer, that they desire a written statement of the affairs of the corporation, such officer must make such statement under oath, embracing a particular account of all assets and liabilities in detail and deliver it to such person within 20 days after such request and also place a copy thereof on file and keep it for 6 months in the office of the company open to inspection of stockholders at all times during business hours, but only one such statement need be furnished in every six months.

Connecticut

No provision.

Delaware

No provision.

District of Columbia

No provision.

Florida

No provision.

Georgia

No provision.

Hawaii

"It shall be the duty of every person or corporation doing business for profit to keep full, regular and accurate books of accounts upon which all his or its transactions shall be entered from day to day in regular order, which books shall be open to the inspection of the assessor of the division or any person authorized by him to inspect the same, during business hours."

Failure to keep regular and accurate books of accounts causes corporation to be guilty of a misdemeanor and liable to a fine of $10 for the first offense and $100 for the second and each succeeding offense.

In cooperative associations, all books shall be kept in such manner as approved by the bank examiner and shall once a year present to the bank examiner for examination such books as he may require.

Statement to Treasurer of Hawaii. Every corporation not eleemosynary, religious, educational or for the promotion of amateur athletics must present annually to the Treasurer of Hawaii a full and accurate exhibit of the state of its affairs as of December 31st. Such statement must be filed 60 days after December 31st and must be in form required by the Treasurer, and available for inspection by officers of the territory, county or city, officers and stockholders, and creditors, or other persons with approval of the Treasurer.

Penalty: For neglect to make and file statement, $100 for every neglect or failure. A continuance of a failure to file is a separate offense for each 30 days.

Idaho

Every corporation must keep appropriate records of account, which may be inspected at any reasonable time by stockholders. Failure to allow inspection causes officer in charge of records to be guilty of a misdemeanor. Making false record with intent to defraud is punishable as a felony.

Illinois

Stockholders have the right to examine books of account at all reasonable times. Any officer or director who denies such access shall be liable to the stockholder in a penalty of 10% of the value of his stock in addition to damages.

Indiana

Every corporation shall keep correct and complete books of account. All such records shall be open to inspection during business hours for all proper purposes by every shareholder, or his agent.

Iowa

A statement of the amount of capital stock subscribed, the amount of capital actually paid in, *and the amount of the indebtedness in a general way* must be kept posted in the principal places of business subject to public inspection.

The intentional keeping of false accounts is a misdemeanor.

Kansas

1. *Business Records.* Directors must keep a record of all business transactions, which must at all reasonable times be open to inspection of every stockholder.

2. *Report of Business.* The directors must, when required by one-third of the stockholders, present reports in writing of the situation and amount of business.

Railroad corporations must keep all books of account at general office, on the main line in Kansas. Failure to do so for 6 months brings forfeiture of charter.

Kentucky

No provision.

Louisiana

No provision.

Maine

No provision.

Maryland

1 *President's Annual Report.* The president (or some other executive designated by the by-laws) must prepare annually a full and true statement of affairs and submit it at the annual stockholders' meeting and file it within 20 days at the principal office in Maryland where it shall be open for inspection of stockholders during usual business hours of every business day.

2. *Statement of Affairs to Stockholders.* If any person or persons holding in the aggregate 5% of the outstanding stock (or 5% of any class), shall present to any officer, director, or resident agent a written request for a statement of affairs of the corporation, he must make or procure such a statement, sworn to by the president, or a vice-president or by the treasurer or an assistant treasurer, embracing a particular account of all assets and liabilities in detail and have it on file in

the principal office within 20 days after such request, to be open at all times during business hours to the inspection of any stockholder, who may copy it.

The penalty for making false statements or entries is a fine of not more than $5,000 or imprisonment for not more than two years, or both.

The books of the corporation must show at all times what money or consideration was received for stock issued, the number and par value of the shares of each class issued for the same, and what money or other consideration was received by the corporation for convertible securities issued by it and the number and par value of the shares of each class of stock into which such securities are convertible.

Massachusetts

1. *Report of Condition.* Annual report to be filed in the office of the Secretary of State and there kept open for public inspection. A detailed description will be found in the text. See also Table of Reports (other than tax reports).

2. *Book of Accounts of Brokerage Business.* To be kept at some accessible place within the state. Must show (1) date of every sale or agreement to sell, delivery or transfer of stock, (2) every transaction in relation to stock, (3) number of shares, (4) face value of the stock, (5) name of stock, (6) name of seller. (7) name of purchaser, (8) face value of attached stamps. Such book must be preserved for two years after date of last entry therein. The above provision applies also to every corporation making a sale, agreement to sell, delivery or transfer of stock.

Michigan

The books containing the accounts shall be kept and shall at all reasonable times be open in the city, village or town where the corporation is located, or at the office of the treasurer of the corporation in Michigan, for the inspection of stockholders, who shall have the right to examine them and once each year a statement of accounts shall be made and exhibited to the stockholders. No penalty is provided.

Minnesota

When the corporation is empowered to take private property, a statement must be kept posted in the principal place of business which must contain amount of indebtedness in a general way. See Table of Corporate Activities Records.

The corporation's accounts are open to the inspection of stockholders, and the directors must, when required, present to the stockholders written reports of the condition and business of the corporation.

Mississippi

No provision, except that the State or any person "as now provided by law" may investigate the accounts.

Missouri

Trustees or directors must keep correct accounts of their transactions, and have full statements of the condition of affairs (with the list mentioned in table of Corporate Activities Records) delivered or mailed to each stockholder at least once a year, at least ten days

before the election. Each stockholder has access to the books at all proper times under regulations prescribed by the by-laws. *Penalty*: If an officer refuses or neglects to exhibit books, he shall be fined $250 for each offense.

Books must be kept open to public inspection, showing assets and liabilities of the corporation.

Montana

The corporation must keep a record of all its business transactions.

Statement of Affairs to Stockholders. Montana has a similar provision to that contained in the Colorado Statute, except that the person making the request shall own 5% of the capital stock, and the demand shall be made on the Treasurer. In Montana moreover a penalty is provided, in that the Treasurer shall forfeit $50 to the aggrieved stockholder for neglect or refusal to furnish the statement, and $10 for each 24 hours thereafter until such statement be furnished.

Nebraska

Directors of manufacturing corporations shall cause a record to be made of all business transactions which are open to stockholders' inspection at all reasonable times.

Such directors shall, *when required* present to the stockholders reports in writing of the situation and amount of business of the company.

Notice must be published annually in a newspaper printed in the county or counties where business is transacted, of amount of the corporation's existing debts. *Penalty*: Stockholders personally liable.

Nevada

No provision.

New Hampshire

No provision for keeping any specific accounts, but accounts are to be open for inspection of all stockholders at reasonable times. Those which have relation to overdue or unpaid demands are open to inspection of the creditor and his attorney.

New Jersey

No provision.

New Mexico

No provision.

New York

"Every stock corporation shall keep at its office correct books of account of all its business and transactions....." (Stock Corporation Law, § 10 as amended by Laws 1926, c. 688).

Financial Statement to Stockholders. Stockholders owning 3% of the shares of a corporation (other than a moneyed corporation) may make a written request to the Treasurer or other fiscal officer, for a statement of its affairs under oath, embracing a particular account of assets and liabilities, and the Treasurer shall make such statement and deliver it to the person demanding it within 30 days of the request and keep a copy on file for 12 months thereafter, open to stockholders' inspection at all times during business hours, but only one such statement may be demanded in any one year. *Penalty*: For neglect or refusal, corporation forfeits $50 to person making the

request, and $10 for every 24 hours thereafter until such statement is furnished.

North Carolina

No specific provisions as to what books of account are to be kept. However, at the request of 25% of the stockholders, or of any stockholder or stockholders owning 25% of the capital stock, the officers must have all of the books audited by a competent accountant. Upon failure or refusal of the corporation to have the audit commenced within 30 days after such request, the requesting parties may, after 10 days' notice to the corporation, apply to a judge of the district who shall appoint an auditor to make the audit at the corporation's expense. On completion of the audit, the auditor must render a statement to the corporation and to the petitioning stockholder.

North Dakota

All corporations for profit must keep a record of all their business transactions.

In the case of mining and manufacturing corporations, regular books of account must be kept, which with the vouchers shall at all reasonable times be open for the inspection of the stockholders. A stockholder may take with him to inspect the accounts an expert accountant. As often as once in each year a statement of such accounts must be made by order of the directors and laid before the stockholders.

Statement to Stockholders. The provisions of the North Dakota statute in this respect are similar to those of the Montana statute, except that the stockholders making the request must own 20% of the capital stock. This statement is to be furnished by mining and manufacturing corporations only.

Ohio

Every corporation shall keep and maintain adequate and correct books of account of its business transactions including accounts of its assets, liabilities, receipts, disbursements, gains, losses, stated capital and shares, together with such particular accounts as are required by the statutes. Books of account must be open to inspection of stockholders at all reasonable times save for unreasonable or improper purposes. Such accounts shall be kept by the Treasurer unless some other officer is designated by the regulations.

Annual Statement to Stockholders. To be prepared by the Treasurer or other fiscal officer or an officer so charged by the regulations, who must lay it before the shareholders. This consists of a statement of profit and loss and a balance sheet containing a summary of assets and liabilities, a summary of profits earned, dividends paid, and other changes in the surplus account, made up to a date not more than 4 months before the annual meeting, from the date up to which the last preceding statement, account and balance sheet were made up. A certificate, signed by the President or Vice-President and the Treasurer or an assistant Treasurer or a public accountant, must be appended to such statement, stating that the accounts are true and correct and exhibit a fair view of the state of the corporation's affairs according to its books. This statement, with the appended certificate, must be laid before the shareholders at each annual meeting, or any other meeting at which directors are elected, and the corporation must, upon the written request of any shareholder, made after notice of any such meeting, forthwith mail a copy of such statement to the requesting shareholder. This statement is not required in the case

of banks. *Penalty*: If the corporation shall neglect or refuse to keep and maintain the required books of account, or to prepare and cause to be certified the above statement of profit and loss, or shall fail within 3 days after request, to mail to the requesting shareholder a copy of said statement, it shall be subject to a penalty of $100 and the further penalty of $10 for every day, beginning 3 days after written request, that said default shall continue to be paid to any shareholder making said request. Officers charged with the duties of keeping the required accounts and making the required statement, who neglect or refuse to perform the duties required, shall personally forfeit $100 and $10 for every day beginning 5 days after written request by any shareholder that default continues to be paid to any shareholder, making such request. Any officer who makes a false statement, balance sheet, etc., knowing it to be false, or makes any false entry in any records or accounts, knowing it to be false, is personally liable for all damages resulting therefrom. Statute of limitations, four years.

See discussion in the text with respect to the provisions of the Ohio Statute.

Oklahoma

All corporations for profit must keep a record of all their business transactions.

Statement of Affairs to Stockholders. (Mining, Manufacturing, or Industrial Corporations). Oklahoma has a similar provision to that contained in the Montana Statute, except that the person or persons making the request shall own 20% of the capital stock.

Statement of Accounts. Regular books of account of all the business of mining, manufacturing or industrial corporations must be kept, which with the vouchers, must be at all reasonable times open to the inspection of stockholders; at least once each year a statement of such account must be made by order of the directors, and laid before the stockholders.

Officers falsifying accounts or records are personally liable for all damages.

Oregon

No provision, except that all books of the corporation are subject to the inspection at all reasonable hours of any person interested therein and applying therefor.

Pennsylvania

The treasurer shall keep the moneys of the corporation in a separate book account to his credit as treasurer, and if he shall neglect or refuse to do so, he shall be liable to a penalty of $50 for every day of neglect. The Treasurer must also give bond in such sum and with such sureties as shall be required by the by-laws for the faithful discharge of his duties.

Book of Accounts of Brokerage Business. The provisions of the Pennsylvania statute in respect to keeping this book and the data to be recorded therein are similar to the requirements of the Massachusetts statute.

Philippine Islands

The corporation must keep a record of all business transactions which shall be open to the inspection of any director, member or stockholder at reasonable hours.

Porto Rico

No provision.

Rhode Island

No provision.

South Carolina

Books are open to inspection of every stockholder at any and all times. General accounts of investment companies must be kept in such a manner that the Insurance Commissioner may be able to ascertain at any time its financial condition, and such books of account must be open at all times during business hours to stockholders and investors.

Statement to Stockholders. The President or other officer having custody of the funds must annually on or before December 30th of each year, make and submit to each stockholder who may request it in writing, a general itemized statement under oath showing the actual assets and liabilities. Statement need not cite any creditor's name. *Penalty*: For refusing or failing to furnish such statement within 30 days of demand therefor, a fine of not less than $25 nor more than $100 or imprisonment for not more than 30 days. False statement punishable as perjury.

South Dakota

The corporation must keep a record of all of its business transactions.

Regular books of account must be kept, which, with the vouchers, shall be open at all reasonable times to the inspection of stockholders; and as often as once each year a statement of accounts shall be made by order of the directors, and laid before the stockholders. For penalties see table of corporate activities.

Tennessee

No provision.

Texas

The corporation must keep a record of all business transactions, and books and records are open at all reasonable times to the inspection of any stockholder, and subject to examination by the attorney general. *Penalty*: Any officer who refuses to allow the attorney general or his representative to examine the books or accounts will be fined not less than $100 nor more than $1000 or imprisoned in jail not less than 30 nor more than 100 days and each day of refusal is a separate offense.

Utah

True and correct books of proceedings and business must be kept. All records, papers and documents are open to inspection of stockholders. For penalty for failure to allow inspection, see table of corporate activities records.

Vermont

No provision as to what books of account shall be kept, but all books must be produced in court on a magistrate's order, and all accounts are open to stockholders' inspection, subject to limitation in the articles of association.

Virginia

No provision.

Washington

No provision.

West Virginia

The board of directors shall cause regular and correct books of account to be kept, and to be settled and balanced at least once every six months. The property and funds, books and papers shall at all times be subject to the investigation of the board of directors, or a committee appointed at a general stockholders' meeting. Books, papers and property must be exhibited as required by the legislature, and when required by the legislature, the corporation must report thereto a full, fair and detailed exhibit of its property, liabilities and condition, verified by the oath of the President, and of the Secretary or principal bookkeeper.

Statement to Stockholders. The board of directors must make a report to the stockholders annually, showing the property and funds belonging to the corporation, and the estimated value thereof; the debts due to the corporation distinguishing good from bad; the debts and liabilities of the corporation; the amount of the capital paid in and the estimated surplus or deficiency; the amount of dividends declared; the losses incurred or profits accruing during the preceding year.

Wisconsin

Every corporation (except interstate railroad corporations) must have a principal office within the state and keep in such office its general and principal books of account. The books containing the stock subscriptions and accounts are open to the inspection of stockholders, at all reasonable times. Railroad corporations owning or operating a railroad in another state in connection with one in Wisconsin must produce books of account before the railroad commission, legislature or any court of record, duly authenticated, when required.

Annual Statement of Condition. At least once each year every corporation must make and file in its principal office and keep on file there for the use of stockholders, a statement and abstract of assets and liabilities and of the corporation's financial transactions for the preceding year, verified by the affidavit of the Treasurer or other proper officer. Such statement must contain a brief statement of the sources whence receipts have been received, stated in classes, and a similar statement of its expenditures showing the amount disbursed for each class of objects and purposes. *Penalty*: Any corporation and any officer neglecting or refusing to make or file such report shall forfeit not less than $25 nor more than $100 for each such neglect or refusal to any stockholder or creditor aggrieved.

The attorney general may examine the vaults, books, papers and documents of the corporation.

Wyoming

The Wyoming statute contains provisions similar to those of the North Dakota statute requiring a statement of affairs to be made to stockholders, with the exception that the percentage of stockholders who may make the demand is 15%. The Wyoming statute applies to all corporations and is not restricted to those organized for mining or manufacturing purposes. There are no other provisions with respect to keeping Books of Account.

TABLE OF CORPORATE ACTIVITIES RECORDS

The following table shows the chief statutory provisions in each jurisdiction governing the keeping of records of corporate activities. The table should be read in conjunction with the Table of Books of Account, as one supplements the other. Reference should also always be made to the Table of Reports Other Than Tax Reports, as in the latter table will be found many statements and reports which must be made and filed by the principal officers in addition to those indicated herein. The following table has been compiled as of January 1, 1930, and state statutes should be consulted which may have been changed subsequent to that date.

It is not expected that this table will be used in lieu of the statutes themselves; it is merely intended as a guide to indicate the general terms of the individual statutory provisions.

Alabama

1. *Stock Records.* Corporation must keep at principal office in Alabama, in hands of some designated officer or agent, a true statement or book showing who are holders of the stock, and all transfers and hypothecations thereof. *No penalty provided.*

2. *Records of Stockholders' Meetings Held Outside State.* Copies of proceedings of stockholders' and directors' meetings held outside state must be deposited with agent at the principal office in Alabama.

Alaska

Stock Book. Must show (a) alphabetical list of stockholders; (b) place of residence; (c) number of shares held by each; (d) dates when they became owners; (e) amount paid thereon. *Open for inspection,* daily at reasonable times. Kept in custody by officer designated by by-laws or President. *Penalty:* For failure to keep books or allow inspection, $50 for each day, to be recovered by aggrieved stockholder.

Arizona

Stock records. Transfer of stock not valid except between parties until properly entered on books, showing, (a) names of transferor and transferee; (b) number or other designation of shares; (c) date of transfer. Books must show original stockholders, their interests and amount paid thereon, and all transfers thereof. Books must be open to inspection of stockholders at all times during reasonable office hours. *Penalty:* Officer, director or agent who has in custody such books and refuses to allow inspection is guilty of a misdemeanor. The making of false reports or entries is a felony.

Arkansas

Stock Book. To be kept at principal office in the state for reasonable inspection. Must contain (a) alphabetical list of stockholders (or each class alphabetically arranged), (b) their addresses and (c) number of shares held by them respectively. Must be produced also at any stockholders' meeting at request of any stockholder. No penalty stated.

California

1. *Journal of Meetings of Directors, Members or Stockholders.* This record must show time and place of holding meetings, whether regular or special and if special, how authorized, its object and the notice given; must embrace every act done or ordered to be done; who were present and who absent; and if requested by a director, member or stockholder, time noted of when he entered or left meeting, or obtained leave of absence. On a similar request, ayes and noes must be taken and a record made on any proposition, and on similar request, protests must be entered. Such records to be kept open to inspection of State official whose duty it is to inspect; also to inspection of all directors, members and stockholders. But stockholder cannot take advantage of this provision to injure the corporation.

2. *Stock and Transfer Book.* Must show a record of all stock: (a) names of members or stockholders alphabetically arranged; (b) installments paid or unpaid; (c) assessments levied and paid or unpaid; (d) statement of every alienation, sale or transfer, date, transferor and transferee. Stock and Transfer Book to be open to inspection of any officer, stockholder, member or creditor.

3. *Book of By-Laws.* All by-laws adopted must be certified by majority of directors and secretary and copied in a legible hand in a book to be kept in the office of the corporation, open to inspection of the public during office hours each day except holidays.

4. *Other Books.* Every corporation (other than religious, educational or benevolent) shall keep books at its principal office which shall show (a) amount of capital stock subscribed and by whom; (b) names of owners and amounts owned; (c) amount of stock paid in and by whom; (d) transfers; (e) amount of assets and liabilities; and (f) names and places of residence of its officers. The first four items would seem to be covered by the Stock and Transfer Book.

Penalties for not Exhibiting Books: (Applies to all the above books). Officer having custody who refuses to allow inspection during office hours is guilty of a misdemeanor. Taking copies or extracts is allowed.

Colorado

1. *Stock Records.* Directors or trustees of every corporation (except industrial corporations having paid up capital of $20,000,000 and maintaining a stock transfer agency in New York City) shall cause to be kept by the secretary, clerk or agent a book showing, (a) alphabetical list of persons who are or have been within one year stockholders; (b) their places of residence and number of shares of each; (c) time when they ceased to be stockholders; (d) amount of stock actually paid in; (e) what proportion paid in cash. Such book to be open to inspection of stockholders and judgment creditors of the corporation during usual business hours at the principal place of business in Colorado, or if books are kept out of Colorado by virtue of § 2244 of laws of 1921, then at place stated in certificate of incorporation, or last annual report, as address stated as that of agent in charge. By-laws, however, may make reasonable restrictions on right of inspection. *Penalty:* For neglect to make proper entries, or refusal to allow inspection is fine of not exceeding $300, and $50 for every neglect or refusal payable to the injured party.

The certificate of incorporation of a company organized to do busi-

ness outside Colorado must state whether or not an original or duplicate stock ledger shall be kept in Colorado, and whether or not the books of the company may be kept out of the state.

Connecticut

1. *List of Stockholders.* At least 3 days before every stockholders' meeting, a complete list of the stockholders entitled to vote, arranged alphabetically, shall be prepared by the secretary and kept open to stockholders' inspection at the time and place of the meeting. Failure to produce such list or to allow inspection of it renders secretary ineligible for any office for one year.

The stock ledger (if there is one) or the transfer books are *prima facie* evidence as to who are stockholders.

2. *Stock Records.* "The books of each corporation of this state shall be so kept as to show at all times the money or other consideration received by such corporation for the stock issued by it and the number and par value, if any, of the shares of each class issued for the same." (L.1923, c.168, §7.)

The corporation must keep books showing the transfers of stock and books giving the names and addresses of stockholders and the number of shares held by them, to be open to inspection of bona fide stockholders at all times during usual business hours at principal office in Connecticut. Stockholders may not use this privilege for speculative or trading purposes or those inimical to the corporation. Person in charge of such books must furnish information as to number of shares held by any stockholder to any applicant who produces an affidavit to the effect that he is a creditor of such stockholder. *Penalty*: For refusal, not more than $100 fine.

3. *Record of Directors' Meetings Held Outside the State.* All proceedings of directors' meetings held outside the state shall be recorded and certified to by presiding officer and secretary or clerk of such meeting and entered on the records of such corporation.

Delaware

1. *Stock Ledger.* Must contain names and addresses of stockholders and number of shares held by them respectively and the original or a duplicate shall be open to inspection of stockholders at all times during usual business hours, at principal office or place of business in Delaware.

2. *Stockholders' List Previous to Election of Directors.* Same as Connecticut, No. 1, except that lists must be open for inspection for 10 days before meeting.

District of Columbia

Stock Book. Trustees shall cause a book to be kept by treasurer or secretary containing (a) names of all persons alphabetically arranged who are or have been stockholders within 6 years; (b) their place of residence; (c) number of shares held by each; (d) time when they became owners; and (e) amount of stock actually paid in. Such book must be kept open for inspection of stockholders and creditors and their personal representatives on every business day, during usual business hours, at office of principal place of business in district where its business operations are located, and such persons may make extracts therefrom. *Penalty*: Neglect to make proper entries or refusal to allow inspection, party in charge guilty of a misdemeanor and in addition the corporation shall pay to injured party $50 for each such neglect or refusal. Neglect to keep such book open for inspection also subjects the corporation to a fine of $50 for each day of neglect.

Florida

1. *Stock Book. To be kept at office in Florida.* Must contain stockholders' names arranged alphabetically (or alphabetically as to classes of stock), their addresses, and number of shares held by each. Stock book must be kept open for inspection daily during at least 3 business hours by (1) judgment creditors of the corporation; (2) any person who shall have been for 6 months immediately preceding his demand a stockholder of record of not less than 1% of the outstanding stock; (3) any person holding (or authorized in writing by the holders of) at least 5% of outstanding stock. *Penalty*: For neglect or refusal to keep stock book open for inspection, $50 for each day of neglect, payable by corporation. If officer or agent neglects or refuses to make proper entry or to allow inspection, the officer and also the corporation must pay to the injured party $50 for each such neglect or refusal, and all damages. Stockholders may not use this privilege for purposes inimical to the corporation.

2. *List of Stockholders.* Treasurer or cashier shall keep an accurate list of stockholders with number of shares owned by each, which shall at all times on written application by any stockholder be open to his inspection. *Penalty*: Refusal to exhibit such list, $50 for each offense, to be deducted from officer's salary.

The secretary or other officer who by the by-laws is given custody of all books, records and papers must keep them in his possession and be ready to produce them for inspection at all times during business hours by any officer, director or committee appointed by the stockholders holding 1/10 of all the subscribed stock and must furnish transcripts from records of proceedings of board of directors.

Georgia

List of Stockholders. True and correct lists of stockholders must be kept on hand at all times, subject to the inspection of creditors during business hours of any working day. President and other officers must produce such lists at request of creditor of the corporation. Applies to corporations whose shareholders are individually liable under their charter.

Hawaii

Stock Register. Trustees, as managers or directors, must cause a book to be kept for registering the names of all persons who are or who shall become stockholders, the number of shares held by each and the time when they became shareholders, such book to be kept open for inspection of stockholders and creditors during usual business hours (except Sundays and holidays). Clerk or person in charge must give a certified transcript of anything in such book to any stockholder or creditor applying therefor.

Idaho

Every corporation must keep at its registered office in Idaho:

1. *Records of proceedings of shareholders and directors.*

2 *Share Register.* Must give alphabetical list of shareholders, showing their last known addresses, the number and classes of shares held by each, and the dates on which they acquired the same. (Every

corporation may open a share register in any state, and employ an agent to keep such register).

3. *By-Laws of the corporation.*

Every shareholder may examine at any reasonable time for any reasonable purpose, any and all books and records and make extracts therefrom, except that no stockholder owning less than 10% of the stock may make a list of names and addresses of the stockholders without a directors' resolution, made and entered at a board meeting, empowering him to do so. *Penalty*: If officer or agent having custody of books or papers refuses to allow inspection he is guilty of a misdemeanor. Making a false record is punishable as a felony.

Illinois

1. *Stock Ledger.* Must give names and addresses of stockholders.

2. *Transfer Book.* Must show transfers.

These books must be kept open for inspection by stockholders during usual business hours at principal place of business in Illinois. Failure to allow inspection subjects officer having custody to penalty of 10% of value of stock of stockholder making demand. A defense to an action for such penalty is to show that such stockholder has within 2 years offered for sale a list of stockholders of any corporation.

3. *List of Stockholders before Elections.* At least 10 days before each election, the officer in charge of the transfer books must make an alphabetical list of stockholders entitled to vote, with residence of each and the number of shares held by him. Such list must be kept on file at principal office and be open at the election, subject to stockholders' inspection.

Indiana

1. *Minutes of proceedings of shareholders and directors.* Shall be open to inspection of stockholders for all proper purposes during usual business hours.

2. *Stock Register or Transfer Book.* (Original or duplicate). Must be kept at principal office open to inspection as above. If a transfer agent in this or other state is employed, the corporation must keep at principal office for inspection as above, a complete list of stockholders, giving names, addresses and number and classes of shares held by each.

Iowa

1. *Statement of Amount of Subscribed Capital.* This statement, showing amount of capital stock subscribed, the amount of capital actually paid in, and amount of indebtedness in a general way must be kept posted in principal places of business subject to public inspection.

2. *Stock Records.* The books of the company must be so kept as to show the original stockholders, their interests, the amount paid on their shares, and all transfers thereof. Transfers must show transferor and transferee, numbers or other designation of shares, and date. Such books or copies thereof shall be subject to public inspection.

3. *Record of Stock Transferred as Collateral.* Secretary must make a record of all stock transferred by a stockholder as collateral when pledgee informs him, such record to be open to public inspection.

4. *List of Stockholders Furnished.* Secretary shall furnish to stockholders at written request, a printed or typewritten list, giving names and P. O. address of stockholders, and number of shares owned by each, such list to be prepared and ready for delivery not later than 30 days prior to annual meeting of stockholders and not more than 60 days prior to said meeting. The written request must be made at least 40 days prior to the meeting.

The intentional keeping of false books is a misdemeanor.

Kansas

Stock Records. Directors must cause a record to be kept of all stock subscribed and transferred and of all business transactions, and their books and records must at all reasonable times be open to inspection of any stockholder. See also table of Books of Account.

Railroad corporation shall keep at its general office on or near its main line in Kansas the "record and books of the corporation and also of the office of the superintendent, general manager or director, secretary, auditor, treasurer and paymaster, general freight agent and general ticket agent....." *Penalty*: Failure to comply with this provision for 6 months brings forfeiture of charter.

Kentucky

Stock Book. A book must be kept at principal office of every corporation in Kentucky, which must contain, (a) the name, P. O. address and number of shares held by each stockholder, and the time when he became such; also (b) all transfers of stock, stating when, the number of shares transferred, and by and to whom. This book shall at all times during business hours be kept open to the inspection of stockholders and those doing business with the corporation. No penalty stated.

Louisiana

Every corporation must keep at its registered office in Louisiana the following:

1. *Record of the Proceedings of Shareholders and Directors.*

2. *Share Register, or Stock Certificate Book.* This book must show names, addresses and number and classes of shares held by each shareholder and dates on which certificates were issued. (Except that a corporation may open a share register in another state, in which case (2) will not apply.)

All of the books and records may be examined and extracts taken therefrom at any reasonable time, for any proper purpose, by any record shareholder who has been a holder of record for 6 months of at least 2% of the outstanding stock. Two or more shareholders (for 6 months) whose holdings aggregate 2% as above, may make a joint request. The corporation may confer on the holders of bonds, debentures or obligations this right of inspection. *Penalty*: An officer who refuses to allow proper examination is personally liable in damages.

Maine

1. *Corporate Records.* To be kept at clerk's office at some fixed place within the state.

2. *Stock Records.* The corporation must keep a book at the clerk's office at some fixed place within the state showing a true and complete list of all stockholders, their residences and the amount of

stock held by each. Such records and stock book must be kept open at all reasonable hours to the inspection of persons interested, who may take copies and minutes therefrom of such parts as concern their interests. Any officer or member who prevents access to and use of the above books and records is personally liable for damages.

3. *Record of Votes.* The clerk must record all votes of the corporation (for directors at the annual meeting) in a book kept for that purpose.

Maryland

1. *General Records.* The directors, managers and trustees "shall keep full and fair accounts of their transactions."

2. *Stock Ledger.* Original or duplicates, showing names and addresses of stockholders and number of shares (of each class, if 2 or more) held by each, shall during the usual business hours of every business day be open for the inspection of any person or persons holding in the aggregate 5% of the outstanding stock, or 5% of any class thereof, at the principal office in Maryland (or other office designated in by-laws). When original stock ledger or a duplicate is not kept at principal office, persons entitled to inspect them (as above indicated) may present a written request to any officer, director, or resident agent for a list of stockholders, and a sworn list containing the information in the stock ledger must be procured and placed on file at the principal office within 20 days after such request, open for inspection of stockholders entitled to examine it.

The other books of the corporation are open to inspection of stockholders on the same terms as the stock ledger.

3. *Record of Voting Trust Agreements.* A duplicate of each voting trust agreement must be filed at the principal office and kept open for inspection of any stockholder, daily during business hours.

The penalty for making false entries or statements is a fine of not more than $5,000 or imprisonment for not more than two years, or both.

Massachusetts

The following books and documents must be kept at the principal office of the corporation in Massachusetts, open for the inspection of stockholders:

1. *The Agreement of Association.*

2. *Attested Copy of Articles of Organization.* (Or an attested copy of articles in amendment of said agreement or of said articles.)

3. *Attested Copy of By-Laws.* (With marginal reference to all amendments thereof.)

4. *Record of Meetings of Stockholders.*

5. *Stock Certificate Book or Transfer Ledger.* This shall contain a complete list of stockholders, their addresses, and amount of stock held by each and may be kept at an office of the corporation in Massachusetts for the inspection of stockholders. This book must also show, in separate columns, (1) date of making every transfer; (2) name of stock and number of shares; (3) name of party surrendering certificates; (4) name of party to whom certificates are issued in exchange therefor; and (5) evidence of payment of tax. This book must be kept for 2 years after date of last entry, as well as cancelled certificates. Such evidence must be furnished (a) by attaching to surrendered certificate the required stamps or (b) if stamps not attached, but are attached to bill of sale, by attaching this to the certificate.

Penalty: For not effectually cancelling stamp is a fine of not less than $200 nor more than $500.

Penalty: If any officer or agent refuses or neglects to exhibit the above books, he or the corporation will be liable for all damages.

Michigan

List of Stockholders. Must show a correct list of all stockholders who are residents of Michigan, and a statement of the number of shares held by each. This list must be kept at the agency or office of the corporation in Michigan; if more than one such office, then at some designated one. Such list must be open to the inspection of the Secretary of State, or any State or local assessing officer, and failure to keep such list shall be declared a misuser of the charter.

Minnesota

The following records and documents must be kept posted at the principal office within the state:

1. *Copy of By-Laws.*

2. *Names of Officers.*

3. *Statement.* This must show (1) amount of capital stock actually and in good faith subscribed, (2) amount and character of payments made thereon, (3) where the corporation is empowered to take private property, the amount of its indebtedness in a general way. This statement must be corrected as changes occur.

The Stock Records must be kept so as to show the original stockholders, their respective interests, the amount paid in on their shares and all transfers thereof. The transfer of stock to be valid must show on the books the names of the persons, by and to whom transferred, the number or other designation of the shares and the date of transfer. The above information is usually given in the *Stock Book* and the *Transfer Book.* In respect to the information above, such books or copies thereof, are subject to the inspection of any person desiring it.

The statutes also contain the general provision that the directors must have accurate records kept of all corporate proceedings and of all stock subscribed, transferred, cancelled or retired, and proper books, accounts, files and records of all other business transacted, and all such books and records shall be at all reasonable times and for all proper purposes open to the inspection of every stockholder. The directors, when required, must present to the stockholders written reports of the condition and business, but no penalty is provided for not doing so.

Mississippi

Any corporation may be required by a writ served on the President, Secretary or any of its directors, to produce in court and submit to inspection on a trial under the anti-trust laws, any books, minutes, records, papers, documents, vouchers or writings belonging to the corporation.

Missouri

Every corporation must keep at its principal office in Missouri open to public inspection books in which shall be recorded the amount of subscribed capital, names of owners, amount owned, amount paid and by whom, transfer and date, amount of the corporation's assets and liabilities, and names and residences of its officers.

1. *Stock Transfer Book.* Transfers of shares to be kept in this book.

2. *Stock Book.* This must contain names of stockholders. Each of these books must at all times during usual business hours, for 30 days previous to an election of directors, be open to stockholders' inspection. *Penalty:* Officer having charge of these books fined $250 for each neglect or refusal to allow inspection.

The clerk or officer having charge of the corporation's books, on demand of any officer holding any execution against the same, must furnish said officer with the names, residence and amount of liability of every stockholder liable for assessment.

3. *List Furnished to Stockholders.* Directors must furnish statement of condition of affairs and a list of stockholders with number of shares owned by each, annually, to each stockholder at least 10 days before the annual election.

Montana

1. *Book of By-Laws.* To be kept in the corporation's office, during office hours of each business day, open to public inspection. This book must contain all by-laws and amendments, certified to by a majority of the directors and secretary.

2. *Journal of All Meetings.* The proceedings of all meetings of directors, members or stockholders must show, (1) time and place of holding meeting; (2) whether regular or special; (3) if special, its object, how authorized and the notice given. This record must embrace every act done or ordered done; who were present, and who absent; if requested, the time when a member entered or left the meeting or obtained leave of absence. Ayes and noes must be recorded on request, as well as protests. Such records must be open to inspection of any director, member, stockholder or creditor.

3. *Stock and Transfer Book.* This is a record of all stock; the names of stockholders arranged alphabetically; installments paid or unpaid; assessments levied, and paid and unpaid; a statement of every alienation, sale or transfer of stock, the date thereof and by and to whom. Such book must be open to the inspection of any stockholder, member or creditor.

4. *Other Records.* The corporation must keep such other records as the by-laws prescribe.

Nebraska

Copy of By-Laws. This must be posted in some conspicuous place, with the names of all officers appended thereto, at the places of doing business, subject to public inspection.

The directors of manufacturing corporations must cause a record to be made of all stock subscribed and transferred and all business transactions, and their books and records shall at all reasonable times be open to inspection by any stockholder.

Nevada

Every corporation shall keep at its principal office in Nevada the following:

1. *Certified Copy of Certificate or Articles of Incorporation.*

2. *Certified Copy of By-Laws and Amendments.*

3. *Stock Ledger.* (Or a duplicate). This book shall be revised semi-annually and contain alphabetical list of stockholders, their residences and number of shares held by each. It shall be open daily (except Sundays and holidays) during at least 2 business hours for inspection by judgment creditors and stockholders. *Penalty:* For neglect or refusal to allow inspection, $25 for each day, with officer in charge liable personally in damages. Defense: That person suing has offered list of stockholders of any corporation for sale.

The old statute still in force provides that the directors must keep a book containing alphabetical list of stockholders, their addresses, number of shares or other voting rights and the time when they became owners at the principal office to be open to inspection of stockholders during usual business hours. This provision appears to be practically a duplicate of the new law which provides for the stock ledger (No. 3).

Creditors of stockholders may on presenting sworn affidavit ascertain number of shares held by debtor, from officer in charge of stock book who must give information under a penalty of $100 to party aggrieved.

False entries or neglect to exhibit books; officer making such entries or neglecting or refusing to allow examination, liable to injured party in $100 and all damages.

New Hampshire

The clerk shall keep in his custody within the state the following:

1. *Record of Organization.* (Or attested copy thereof and of all amendments thereto.)

2. *Copy of the By-Laws.* This must have marginal reference to all amendments.

3. *Record of All Meetings of Stockholders.* The Treasurer, Cashier or officer authorized to issue stock certificates shall keep in his office the following:

4. *Stock Records.* These shall be kept in books provided for the purpose and contain (1) names and residences of stockholders; (2) changes in residence; (3) number of shares owned by each; (4) all transfers of shares; (5) record of every certificate issued by him. He shall also keep on file all old certificates, transfers, and deeds of shares delivered to him.

Officers having the custody of accounts, papers and records must allow inspection by stockholders or creditors on payment of legal fee and Superior Court has equitable jurisdiction to enforce this provision, after seven days.

New Jersey

1. *Stock Transfer Books.* These shall contain all transfers of stock and be kept at principal and registered office in New Jersey.

2. *Stock Books.* To be kept at principal and registered office in New Jersey and they must contain names and addresses of stockholders and number of shares held by each. The Transfer and Stock Books shall be open to the inspection of every stockholder.

The secretary or other designated officer, at least 10 days before every election must make an alphabetical list of stockholders, with their addresses and number of shares held by each and keep it at the principal office open for inspection of stockholders, and the stock and transfer books and this list must be produced at the election. *Penalty:* Any officer having custody of such books or list who neglects or refuses to permit inspection, shall forfeit $200 for each offense; one half to the state and the other half to aggrieved stockholder.

New Mexico

The following must be kept at the principal office within the state:

1. *Certified Copy of Certificate or Articles of Incorporation.*

2. *Certified Copy of By-Laws and Amendments.*

3. *Stock Ledger.* (Or a duplicate.) This must be revised semi-annually and 10 days before annual meeting and must contain (1) alphabetical list of stockholders, (2) their residences and (3) number of shares held by each. It shall be open to inspection of judgment creditors and stockholders daily, except Sundays and holidays, during at least 2 business hours. *Penalty*: For refusal or neglect to permit inspection $25 for each day of neglect or refusal, and corporation and officers liable in damages. It is a defense that the party demanding inspection has offered for sale a stock list of this or any other corporation.

4. *Record of Votes.* The Secretary must record all votes of the corporation and directors (at elections) in a book to be kept for that purpose.

New York

1. *Stock Book.* Must be kept at the corporation's office, open to inspection of judgment creditors of the corporation, stockholders of 6 months' record, or holders of 5% of the outstanding stock, daily during at least 3 business hours, and must contain (1) names of stockholders arranged alphabetically, (2) their residences, (3) number of shares held by each, (4) time when they became owners thereof and (5) the amount paid thereon. Extracts from this book permitted.

If corporation has a transfer agent in this state, the Stock Book may be kept at his office if notice is posted to this effect. *Penalty*: Neglect or refusal to keep such book, $50 fine for each day of neglect or refusal. If officer neglects or refuses to make proper entry, or to permit inspection, both the corporation and the officer shall forfeit to the party injured $50 for each such neglect or refusal, and be liable for all damages. It is a defense that the person demanding has within 2 years offered a list of stockholders of any corporation for sale.

The books and papers containing the list of stockholders must be produced at any stockholders' meeting at the request of any stockholder.

2. *Transfer Ledger.* To be kept at some accessible place in State of New York, in a form prescribed by the Tax Commission. Must show in separate columns (1) date of every stock transfer; (2) name and number of shares thereof, (3) serial number of each surrendered certificate, (4) name of party surrendering it, (5) serial number of certificate issued in exchange, (6) number of shares covered by certificate issued, (7) name of party to whom issued, (8) face value of stamps attached in payment of tax on the transfer. *Penalty*: For failure to keep such book, or for alteration or destruction or making false entries; corporation guilty of a misdemeanor and fined not less than $500 nor more than $5000 for each such offense.

North Carolina

1. *Transfer Books.* To be kept at principal and registered office within the state, and in them the transfer of stock must be registered.

2. *Stock Books.* To be kept at principal and registered office within the state and must contain names and addresses of stockholders and number of shares held by each.

These books must at all times during usual business hours be open to examination of any stockholder. They must also be produced by the directors at the time and place of elections and neglect or refusal to produce them renders directors ineligible to any office at such election.

North Dakota

1. *Book of By-Laws.* To be kept in the office of the corporation, subject to public inspection. This book must contain the by-laws and amendments thereto, certified by a majority of the directors and the Secretary.

2. *Record of Business Transactions.* See table of Books of Account.

3. *Journal of All Meetings.* The provisions of The North Dakota Statute are identical with those of the Montana Statute in this respect.

4. *Stock and Transfer Book.* The provisions of the North Dakota Statute are similar to those of the Montana Statute in this respect. The Stock and Transfer Book must be kept open to the inspection of any stockholder, member or creditor.

Ohio

The books of account, lists of shareholders, and their addresses, records of the issuance and transfer of shares, voting trust agreements, and the minutes of meetings of every corporation shall be open to the inspection of shareholders at all reasonable times except for unreasonable or improper purposes.

Minutes. The corporation must keep minutes of the proceedings of its incorporators, shareholders and directors, subject to a penalty of $100 and $10 per day for each day of neglect after 3 days' written request by a shareholder, to be paid to any shareholder, making such request, and the Secretary, or other officer charged by the regulations with the duties of keeping such minutes, is also liable personally in the same amounts, after 5 days' notice.

For making false entries, the officer making them is personally liable in damages.

List of Shareholders. At any meeting of shareholders, an alphabetical list of shareholders, showing the number and class of shares held by each on the date fixed for closing the books against transfers must be produced at the request of any shareholder, certified by the Secretary or agent in charge of transfers. The Secretary or other officer designated by the regulations must prepare such list. The penalties specified above apply also to neglect or refusal to prepare such list.

Oklahoma

The provisions of the Oklahoma statutes in respect to Corporate Activities Records are identical with those of the Montana statute. See above, Montana.

Oregon

The Secretary must keep a fair and correct record of all the official business of the corporation.

Stock Book. This book must show the original stockholders, their respective shares, the amount paid, the amount due thereon, and all transfers thereof. The stock book, or a certified copy thereof, as well as all other books of the corporation necessary for carrying on its

business are subject to the inspection at all reasonable hours of any person interested therein and applying therefor.

Pennsylvania

The Secretary or clerk shall record all the votes of the corporation and the minutes of its transactions in a book to be kept for that purpose.

Stock Certificate Book or Transfer Ledger. The provisions of the Pennsylvania statute in regard to keeping this book are similar to those of the Massachusetts statute. The stock certificate book and book of account, transfer ledger or register must be kept at some accessible place within the Commonwealth.

Philippine Islands

The provisions of the statutes in respect to keeping records of business transactions, a minute of all meetings, and a "stock and transfer book" are practically identical with those of the Montana statute. In the Islands, however, no statement to stockholders is required to be furnished.

Porto Rico

The provisions of the Porto Rico statute with respect to the keeping of Transfer Books and Stock Books and compiling a list of stockholders are similar to those set forth in the New Jersey statute.

Books other than the Stock and Transfer Books may be kept outside of Porto Rico if the by-laws so provide, subject to a court order to bring such books within the jurisdiction.

Rhode Island

Stock Ledger. The original or duplicate stock ledger, containing the names and addresses of all stockholders and the number of shares held by each, shall at all times be kept at the place of business or principal office of the corporation or of its transfer agent within the state.

South Carolina

All corporate books are open to inspection of stockholders at any and all times.

South Dakota

The provisions of the South Dakota statute in respect to the keeping of corporate activities records are identical with those of the Montana statute, in regard to keeping the By-Laws Book, Journal of Meetings, and Stock and Transfer Book. *Penalties:* Every director or officer who with intent to defraud, destroys, alters, mutilates or falsifies any books, papers or writings of the corporation, or makes false entries, or neglects to make material entries in books of account or records, is punishable by imprisonment in the state penitentiary for not less than 3 nor more than 10 years, or by imprisonment in the county jail for not more than a year, or by a fine of not more than $500, or both fine and imprisonment. Every officer who has in his custody any book, paper or document of the corporation and refuses to allow a stockholder or member, lawfully demanding, to inspect it during office hours is guilty of a misdemeanor. Officers making false entries are also personally liable for all damages resulting therefrom.

If the articles of incorporation provide that the corporation may

have its principal office outside the state, the original books and records need not be kept within the state provided attested copies of all minutes of all stockholders' and directors' meetings and record of stockholders be kept at the office within the state and the annual report be filed.

Tennessee

1. *Stock Ledger.* (Original or duplicate). Must be kept at the principal office in Tennessee and show the original and subsequent stockholders and their respective interests.

2. *Stock Books.* To be maintained at principal office in the State and must show the amount paid in on stock subscribed, and all other facts and transactions in which it is presumed a stockholder or creditor may have an interest. Such stock book must be kept open at reasonable business hours to the inspection of any stockholder if not interfering with the corporation's business. *Penalty:* Any corporation which shall neglect or refuse to keep such books, or to keep the Stock Book open, shall be fined $50 for each day of neglect or refusal. Officers or agents in custody of such books who neglect or refuse to make proper entries or to allow inspection, are with the corporation liable to injured parties for $50 for every such neglect or refusal and all damages resulting therefrom. It is a defense that parties have used or propose to use the information so obtained for improper purposes. Fraud is punishable as a misdemeanor.

The books and papers containing the list of stockholders must be produced at any stockholders' meeting at the request of any stockholder.

Texas

The directors shall cause a record to be kept of all stock subscribed and transferred, and of all business transactions, and all books are open to the inspection of stockholders at all reasonable times and are subject to the examination of the attorney general or his representative. For penalty, see table of Books of Account.

The secretary or other officer in charge of the books must furnish to any plaintiff with an execution against the corporation, on demand, the names and residences of stockholders and the amount of stock held by each.

Utah

The corporation must keep true and correct books of its proceedings and business.

Stock Records. The books must show the original stockholders, their interests, the amount paid on their shares and all transfers. All books shall, at all reasonable hours, be open to the inspection of any bona fide stockholder of record. *Penalty:* Officer in charge of any paper, book or document refusing lawful inspection during office hours is guilty of a misdemeanor.

Vermont

The clerk must record all notes and proceedings of the stockholders or members and of the directors or trustees or any executive committee thereof. He shall have custody of the corporate seal and of the corporate records and shall keep such records within the state.

Stock Book. The clerk must keep a book containing a record of the names of the stockholders, their residence and the number of shares held by each, the time when they acquired the shares and the time of any transfers thereof. This book must be kept open to the inspection of the stockholders.

Certified Copies of Papers. The clerk must keep on file in his own office (as well as procure and file in the office of the town clerk where the principal office is located) certified copies of all papers required to be filed with the Secretary of State.

All books, papers and documents must be produced before any court or commission when notice is served to do so, under penalty for contempt of court. The penalty imposed on an officer for neglect to appear and be sworn and to testify with regard to such records, is a fine of not less than $500 nor more than $5,000.

All records, accounts and papers are subject to the inspection of stockholders, except as such right may be limited by the articles of association, but the right to inspect the stock book may not be limited. *Penalty*: Any officer who neglects or refuses to give a certified copy of any record, account or paper in his custody to a person entitled to it, after 3 days' neglect or refusal is liable to a penalty of not more than $1000 to be paid to the demanding stockholder or member, for each offense.

Virginia

Register of Stockholders. The secretary must keep a register of the address of every stockholder who furnishes it, and make all proper changes in it, for the purpose of mailing all notices required to be mailed in regard to meetings, according to such register. If stockholder refuses or fails to furnish his address, he is not entitled to such notices.

Transfer Books. Transfer books shall be kept by the corporation or by one or more transfer agents appointed by it, in which shares shall be transferred under such regulations as may be prescribed in the by-laws.

Washington

Stock Records. The trustees must keep a book containing (1) an alphabetical list of all stockholders; (2) the number of shares held by each; (3) time when they become owners of such shares. Such book must be kept at the office or the principal place of business of the corporation open to the inspection of stockholders and creditors during usual business hours. Stockholders and creditors may make extracts therefrom or demand and receive a certified copy of any entry therein; or of any paper on file in the corporation's office. *Penalty*: If the officer in charge of such books makes any false entry, or neglects to make proper entry, or refuses to allow inspection or to give a certified copy of any entry, he shall forfeit to the injured party, not less than $100 nor more than $1000 and all damages resulting therefrom; and if the corporation neglects to keep such book for inspection it shall be fined $100 for each day of neglect.

The transfer books must show names of the parties, by and to whom transferred, numbers or designations of shares and date of transfer.

If directors' meetings are held outside the state, either the original or complete copies or duplicates of all proceedings of such meetings certified by the secretary under the corporate seal must be kept at the principal office or place of business within the state and shall be part of the corporation's records within the state.

West Virginia

1. *List of Stockholders.* A list, showing the stockholders, the number of shares and votes to which each is entitled, shall for one month prior to every annual meeting, be hung up in the most public room at the principal office or place of business. However, the failure to do so will not affect the validity of the meeting.

2. *Records of Directors' Meetings.* The directors shall cause a record of all directors' meetings to be kept by the secretary, assistant secretary or secretary *pro tem.* (The by-laws may prescribe that the secretary be sworn to the faithful discharge of his duties and that he be personally liable for damages caused by failure so to act). The records must be verified by the person acting as secretary and by the chairman of the meeting. The names of those voting each way on every question shall be entered on the record, if any member require it. The minutes of the resolutions and proceedings of the board shall be for 30 days before the annual stockholders' meeting open to the inspection of any committee appointed in writing by the holder or holders of 1/20 of the total value of the outstanding capital stock, or 1/20 of such shares. Such minutes shall be produced when required at any general meeting.

3. *Transfer Book.* Must be kept by the corporation or by one or more transfer agents appointed by it, and in it the shares shall be transferred under such regulations as the by-laws or board of directors may prescribe.

The books and papers of the corporation are at all times subject to the investigation of the board of directors, or a committee appointed for the purpose by a general meeting of the stockholders.

Wisconsin

1. *Stock Transfer Records.* The books containing the stock subscriptions and the accounts shall be kept at the principal office of the corporation in the state and shall at all reasonable times be open to the inspection of stockholders, and every creditor shall be informed at any time of the amount of stock subscribed, the amount paid in, who the stockholders are, the number of shares owned by each, and the amount unpaid by each stockholder on his shares; and if any shares not fully paid for have been transferred within 6 months of the time of inquiry, the name of the transferor and the amount due thereon at the date of transfer. Officers refusing a creditor such information shall be liable for damages. *Penalty*: Any corporation and any officer neglecting or refusing to perform any of the above duties shall, in addition to other penalties, forfeit not less than $25 nor more than $100 for each such neglect or refusal to any stockholder or creditor aggrieved.

2. *Stock Book.* This book must contain the names of all stockholders or members since organization, showing place of residence, amount of stock held, time of acquiring stock or becoming a member, time of transfer of stock or cessation of membership of each. *Penalty*: If any officer shall omit to make any entry so required he shall forfeit not less than $25 nor more than $1000 and be liable for all damages.

3. *Record of Proceedings.* Each corporation must keep a correct and complete record of all its proceedings, including such as relate to the election of officers and such record need not be kept in the English language if so provided in the articles of organization.

4. *List of Stockholders—Railroads.* Interstate railroads must have a designated office within Wisconsin and keep there a list of stockholders, together with a statement of the number of shares of stock held by each, which list must be corrected at least three times a year at the times of closing stock books, if they shall so often be closed; otherwise at least ineach four months. Failure or refusal to comply will cause forfeiture of franchises.

Wyoming

No provision.

TABLE OF STATUTORY PROVISIONS IN RESPECT TO REPORTS, OTHER THAN TAX REPORTS, REQUIRED OF DOMESTIC CORPORATIONS

The statutes in nearly all the jurisdictions of the Union contain provisions which require corporations to file or prepare reports other than tax reports. Such reports often consist of (1) reports to be filed annually with the Secretary of State, setting forth in detail the capital set-up of the corporation, with names and addresses of officers, etc., (2) reports of financial condition which must be furnished to the state authorities or to stockholders. The following table shows the nature of the reports required to be filed or furnished in each jurisdiction, having to do with other than tax matters, and the penalties (if any) for failure to comply with the statutory requirements. The table was complied as of January 1, 1930, and notice should be taken of any changes in state laws since that date. The table applies to domestic corporations only.

Alabama

No statutory provisions.

Alaska

Annual Report. To be filed with auditor of territory within 60 days after annual stockholders' meeting; verified by President and Treasurer; copy kept at main office for inspection of stockholders. Contents: (1) amount of capital stock and proportion issued, (2) amount of debts, (3) amount of assets, (4) names and addresses of all officers and directors. *Filing fee* $2.50. *Penalty*: If not filed by either of above officers within 10 days after written request of creditor or stockholder, $50 for each day of neglect, recoverable by such creditor or stockholder.

Arizona

No statutory provisions.

Arkansas

1. *Annual certificate.* Made under oath by President and Secretary showing condition of affairs on preceding January 1 or July 1. Must be deposited on or before February 15th or August 15th with county clerk of county where corporation transacts business. Must state (1) amount of capital paid in, (2) cash value of real estate, (3) cash value of personalty, (4) cash value of credits, (5) amount of debts, (6) name and number of shares of each stockholder. *Recording fee*, 15c. per 100 words. *Penalty*: Fine not exceeding $500, each day's neglect constituting separate offense, officers personally liable for debts of corporation contracted during delinquent period.

2. *Anti-Trust Affidavit.* Made by President, Secretary, Treasurer or Director annually on or about July 1st in response to inquiry from Secretary of State. Must state that corporation is not party to pools or trusts, etc. Form is statutory; see Crawford and Moses Digest, 1921 § 7375. *Penalty*: For failure to make affidavit within 30 days of mailing of inquiry, $200—$5,000, each day a separate offense, and forfeiture of charter. (§ 7368).

California

Financial Statement. On written request of not less than 10% of stockholders, presented not less than 2 weeks prior to annual meeting of stockholders for election of directors (1st Tuesday in June unless by-laws provide otherwise). One copy of this statement must be served on each stockholder at least one week prior to such meeting. *Contents*: (1) authorized capital, (2) capital subscribed, (3) paid-in capital, (4) assets, surplus and undivided profits, (5) amount paid to employees, (6) names and addresses of all officers and directors, (7) amount of mortgages, bonded or other indebtedness, (8) amount of last annual, semi-annual or quarterly dividend, (9) general summary of business transacted since last annual meeting. Statement must be signed and sworn to by President and Secretary before proper officer and personally served on or mailed to each stockholder. *Penalty*: It is a misdemeanor to sign false financial statement.

N. B. This statement need not be made unless 10% of stockholders demand it, as above indicated.

Colorado

1. *Annual Report to Secretary of State.* Must be made within 60 days after January 1st, signed by President and verified by oath of President and Secretary, under corporate seal. *Contents*: (1) names, residence and street address of officers, (2) same of directors or trustees, (3) authorized capital, (4) paid-in capital, (5) how same was paid, cash or otherwise, (6) amount of debts at date of report, (7) whether corporation is actively in business in Colorado, (8) other information showing financial condition. Mining corporation must also show (1) amount and location of properties within state. (2) whether they are held under United States Letters Patent, and (3) if by possessory right on public domain, and amount, (4) general information stating amount of work and improvements during past year. *Filing fee*: Corporations with capital stock of $10,000 or less, $1.00. All others, $5,00. *Penalty*: Officers personally liable for corporate debts contracted during delay and not more than $50 fine. If officers refuse to file report, director may do so. Resignation will also protect officer from personal liability.

2. *Report to Stockholders.* At written request of 15% of stockholders, to Secretary, Treasurer or Cashier. Such officer must deliver such statement on oath within 20 days to persons presenting the request, showing particular account of all assets and liabilities in detail, copy to be kept by corporation for six months open to stockholders' inspection. Such statements may not be required oftener than once in six months.

3. *Report of Stock Transfers.* Made on January 1 and July 1 of each year, by "proper officer" to Attorney General. Refers to transfers of stock made during preceding year by person appearing on books as owner, when transfer is made to take effect at or after death of owner or transferor, and transfers made by executors, administrators, trustees or persons other than owner of record on the books prior to transfer.

Contents: Name of owner, place of residence, name of person at whose request stock was transferred, his place of residence and authority for making transfer, name and residence of transferee, with such information as reporting officers have relating to estates of deceased persons who may have been owners of stock.

Connecticut

1. *Annual Certificate.* Made and sworn to by President and Treasurer, to be filed on or before February 15th or August 15th, with Secretary of State. Must show as of preceding January 1st or July 1st, (1) name, residence and P. O. address of officers and directors, (2) amount of subscribed capital not fully paid, with amount due, (3) location of principal office in Connecticut, with street and number, and name of agent on whom process may be served. Secretary of State files certificate, and issues a certified copy, which corporation must file with town clerk where corporation is located. If President is unable to sign, Secretary may substitute, provided he and Treasurer are not same person. *Filing fee,* $.75 per page, minimum $2.00. Town clerk's fee $1.00. Penalty: $25.00 for each failure. Failure for two consecutive years is *prima facie* evidence of forfeiture of corporate rights. The above requirements do not apply to banks, trust companies, insurance and surety companies, building and loan associations, railroad or street railway companies, express companies and public service corporations.

2. *Annual Report of Mining or Oil Companies.* Applies to such companies which have received certificate from Bank Commissioner authorizing them to sell stock in Connecticut. To be filed with Bank Commissioner on or before September 30th, on blanks furnished by him. Must show statement of assets and liabilities and other information required, as of June 30th preceding, subscribed and sworn to by President, Secretary and Treasurer and accompanied by C. P. A.'s certificate as to truth of statements.

Delaware

No statutory provisions.

District of Columbia

Annual Report. Made within 20 days from January 1st, signed by President and majority of trustees, verified by oath of President or Secretary, filed in office of Recorder of Deeds and published in a newspaper in the District. *Contents:* amount of capital and proportion actually paid and amount of debts. *Penalty:* Creditors may compel publication by mandamus, corporation to pay all expenses. *False reports,* all signers with knowledge liable personally for corporation debts contracted while they are officers or stockholders.

Florida

1. *Annual Return to State Comptroller.* Date required not stated. Made by Treasurer or Cashier or if absent, President or Directors. *Contents:* Name and residence of each stockholder and number, par and cash market value of his shares, whole amount of capital stock and amount paid in, real estate subject to assessment for taxes and personal estate. *Penalty:* not less than $100 for each offense. This provision is not enforced.

2. *Semi-Annual report to State Comptroller.* No specific date set. Statement of amount of capital stock subscribed, amount paid in and indebtedness filed every six months or when comptroller directs. No penalty stated.

3. *Certificate to Secretary of State.* On or before June 1st annually with Secretary of State. Must state names and P. O. addresses of officers and directors. Made by corporation, particular officer to sign not specified. *Penalty:* $100 damages to aggrieved person.

Georgia

Annual Report. To be made through President or General Manager to Secretary of State (*ex-officio* Corporation Commissioner). To be filed on or by November 1st annually. *Contents:* (1) name of company, (2) when incorporated, (3) by what authority incorporated, (4) where incorporated, (5) amount of capital stock, (6) business, (7) principal office. *Filing fee,* $1.00 first year and 50c. annually thereafter. *Penalty:* $50.00. *N. B.* Does not apply to banks.

Hawaii

Annual Report to Treasurer. Report as of December 31st to be filed within 60 days after December 31st, extension not to exceed 30 days. Officers to execute not specified. *Contents:* Such information and in such form as Treasurer of Hawaii, with approval of governor, may require. *Penalty:* $100 for each offense, each 30 days' failure to constitute a separate offense. Does not apply to eleemosynary, religious, educational, or corporations promoting amateur athletics.

Idaho

No statutory provisions.

Illinois

No statutory provisions. However, Secretary of State may propound interrogatories to corporations which he deems necessary, which must be answered by President, or Vice-President or Secretary or Assistant Secretary in writing under oath, not less than 10 days after mailing of interrogatories. *Penalty:* Forfeiture of charter.

Indiana

Annual Report: To be filed with Secretary of State within 30 days after June 30th, made on form prescribed and furnished by Secretary of State, signed and sworn to by President or a Vice-President and Secretary or an Assistant Secretary. *Contents:* (1) name of corporation, location of principal office and name and P. O. address of resident agent, (2) total authorized shares, showing number and value of par and number of no par shares, classes of stock if any and particulars, (3) if stock issued since preceding June 30, (a) total number of shares with particulars, (b) statement of cash and property received in payment for the stock, (c) valuation placed by directors on consideration received other than cash, (d) in case of share dividend, statement of amount of surplus transferred to capital account and whether all or part of it was created by revaluation of assets, (4) total shares then outstanding with analysis, (5) names and P. O. addresses of all directors and officers and expiration of terms of office, (6) date of next annual stockholders' meeting. *Filing fee,* $1.00. *Penalty:* For false statements, guilty of perjury. For causing false report to be filed, guilty of a felony and imprisonment for not more than five years or a fine of not more than $1,000, or both.

Iowa

1. *Annual Report.* Signed and sworn to by an officer of the corporation, filed with the Secretary of State between July 1st and August 1st of each year, accompanied by the fee of $1.00 and application for permit. *Contents:* (1) name and P. O. address of corporation, (2) authorized capital stock, (3) capital stock issued and outstanding, (4) par value of such stock, designating whether preferred or common, and amount of each kind, (5) names and P. O. addresses of officers and directors and whether change of place of business has been made

during previous year. *Filing fee.* $1.00. *Penalty*: Corporation liable, September $1.00, October $2.00, November $3.00, December $4.00 and $5.00 per month thereafter. In January or February, Attorney-General may bring action for fees and penalties or recommend that Secretary of State cancel name from list of live corporations; when so cancelled corporate rights are forfeited.

2. *Report of Transfer of Stock to State Treasurer.* Due on July 1st annually; report made by proper officers under oath. Refers to all stock transfers during preceding year by any person who appears on books as owner, when transfer is to take effect at or after death of owner or transferor, and all transfers made by an administrator, executor, trustee, referee or person other than owner or record owner. *Contents*: (1) name of owner and place of residence, (2) name, address and authority of person requesting transfer, (3) name and residence of transferee, (4) such other information as officers may have relating to deceased persons, who may have been owners of stock. *Penalty*: If stock is subject to tax which is unpaid, State Treasurer may bring suit against corporation unless tax is paid within 60 days after notification.

Kansas

No statutory provisions.

Kentucky

No statutory provisions.

Louisiana

1. *Annual Report to Secretary of State.* Due on or before February 1st in each year. Signed by President, Treasurer or other proper officer or any two directors. *Contents*: (1) P. O. address of registered office, (2) names and P. O. addresses of resident agents, (3) P. O. address or addresses of place or places of business within or without Louisiana, (4) name and P. O. addresses of all directors and officers and expiration of term of office, (5) capital stock, (6) number of shares and par value (if any) of each class of capital stock, (7) number of shares of each class allotted and (8) issued, (9) date of next annual stockholders' meeting to elect directors. *Penalty*: If report not filed within 15 days after Secretary of State requests it in writing, penalty of $10 per day for each day of neglect.

2. *Report to Stockholders.* Sent not more than once a year to each stockholder of record requesting report. Made and verified by President or Vice-President and Secretary or Assistant Secretary. *Contents*: Same as in last annual report (No. 1 above) preceding request. *Penalty*: If report is not mailed or delivered within 15 days after written request, $50.00 for each day of neglect, recoverable by stockholder.

3. *Report and Affidavit as to Consideration for Shares.* Due within 90 days after incorporation. To be filed in office of recorder of mortgages for parish where registered office is located and in office of Secretary of State. Must be verified by President or Vice President and by Secretary, Assistant Secretary, or Treasurer. *Contents*: (1) number of par and no par shares which may be issued, par value and classes of stock, (2) total number of par and no par shares allotted to date of report, (3) cash received or to be received in payment for shares. Also cash value fixed for any authorized but unallotted no par shares, (4) description of consideration received other than cash, (5) valuation set by incorporators, stockholders or directors on such consideration. If after filing above statement, shares are subsequently allotted to be paid for otherwise than by cash, within 90 days after such allotment a verified report as above shall be filed setting out

(a) total shares allotted not paid for in cash since last report, (b) description of consideration, (c) statement of set valuation, and (d) if stock dividend, amount of surplus transferred to capital. Where subsequent allotments paid for in cash, no additional report necessary unless paid for at a different rate. *Penalty*: corporation liable to fine of $500; directors and officers personally liable for damages.

Maine

Annual Report to Secretary of State. Due on or before June 1st. Verified on oath and signed by President or Treasurer. *Contents*: (1) name and residence of directors, President, Treasurer and Clerk, (2) location of principal office in Maine, (3) amount of authorized capital. Blanks furnished by Secretary of State. Does not apply to religious, charitable, educational and benevolent corporations and some others. *Penalty*: $500.

Maryland

1. *Annual Statement.* President (or other executive designated by by-laws) to prepare annually a full and true statement of affairs, which shall be submitted at annual meeting of stockholders or members and filed within 20 days at corporation's principal office in Maryland, to be open to inspection of stockholders during business hours.

2. *Statement of Affairs.* Sworn to by President or Vice-President or Treasurer or Assistant Treasurer, made or procured by officer, director or resident agent at written request of 5% of holders of outstanding stock (or 5% of any class of stock). *Contents*: Particular account of assets and liabilities in detail. To be on file at principal office within 20 days after presentation of such request, open to stockholders' inspection.

Massachusetts

1. *Annual Report to Commissioner of Corporations.* Signed and sworn to by President, Treasurer and majority of directors. To be filed within 30 days after date fixed in by-laws for annual meeting or within 30 days after final adjournment of said meeting, but not more than 3 months after date fixed for said meeting. *Contents*: (1) name of corporation, (2) location and street address of principal office in Massachusetts, and also elsewhere if organized to do business wholly outside Massachusetts, (3) date of last annual meeting, (4) amount of authorized capital, number of par shares and value, number of no par shares, amount of issued stock and amount paid, classes of stock, par value and number of shares, (5) names and addresses of directors and officers and dates terms of office expire, (6) statement of assets and liabilities substantially in following form:

Assets		Liabilities	
Real Estate	.....	Capital Stock (including only shares having par value)	.....
Machinery	.....	Accounts Payable	.....
Merchandise (Manufactures, mdse., materials and stock in process)	.....	Funded Indebtedness	.....
		Floating Indebtedness	.....
Furniture and Fixtures	.....	Reserve	.....
Cash and debts receivable	.....	Surplus	.....
Stocks and Securities	.....	Profit and Loss	.....
Patent Rights	.....		
Trade Marks	.....		
Goodwill	.....		
Profit and Loss	.....		
Total	.....	Total	.....

If corporation's capital stock is $100,000 or more (counting no par shares at $100), the above report must be accompanied by auditor's written sworn statement that it represents true condition of corporation, as disclosed by books. *Penalty*: Omission to file within 30 days after notice received from commissioner, $5.00 to $10 fine per day for 15 days; $10 to $200 per day thereafter. If default continues for 2 years, corporation may be dissolved.

2. *Report of Change in Officers.* Certificate of any change in officers except at annual meeting. To be filed forthwith in office of commissioner, signed and sworn to by clerk. *Penalty*: If certificate not filed within 30 days after such change, or if corporation fails to keep a clerk, fine of not more than $500.

3. *Report of Change of date of Annual Meeting.* Certificate signed and sworn to by clerk. To be filed in office of commissioner forthwith after any change in date fixed in by-laws for annual meeting. *Penalty*: for not filing within 30 days after such change in date, not more than $100 fine.

Michigan

1. *Triennial Report.* To be filed in months of July or August of 1924 and every third year thereafter, with Secretary of State. Made by directors or trustees on form prescribed by Secretary of State. *Contents*: (1) name, (2) location of principal office, (3) term for which incorporated, (4) act under which incorporated or re-incorporated, (5) names and residence of officers and directors, (6) purposes, (7) authorized capital, and (8) inventoried value of all property owned at time report is made. Does not apply to corporations filing articles or reports with insurance or banking departments or with Public Utilities Commission. *Filing fee*, $2.00, to accompany report. Corporation must send copy to Secretary of State for certification and forwarding to County Clerk. *Penalty*: Forfeiture of charter.

2. *Report of Owners of Capital Stock.* If requested by Secretary of State, a list of names of owners of issued capital stock must be furnished him, within 30 days after such request. *Penalty*: Not more than $500 fine.

Minnesota

Reports to Stockholders. Directors must, *when required* present to stockholders written reports of corporation's condition and business. There are no other statutory provisions bearing on the question of reports other than tax reports.

Mississippi

Annual Report. To be filed in office of Secretary of State on or before June 30th in each year. This to be a written statement signed by one or more officers or by two directors. *Contents*: (1) name, (2) domicile in Mississippi, (3) principal office in or out of Mississippi, (4) character of business, (5) name and address of resident agent, if any, (6) authorized capital, (7) outstanding capital, (8) names and addresses of officers and directors. *Penalty*: $10.00 fine. If penalty and all fees not paid within six months after notice of default mailed by Secretary of State, additional fine of not more than $500. Does not apply to corporations having no authorized capital stock and not organized for profit.

Missouri

1. *Annual Registration.* Corporation must register in office of Secretary of State on or before July 1st in each year, (1) its corporate name and P. O. address, with street or building and number, (2) names and P. O. addresses of officers and directors. Secretary of State issues certificates of registration which must be posted in office of corporation throughout the year for which issued. Does not apply to corporations exempt from taxation, farmers mutual insurance companies or mutual automobile insurance companies. *Registration fees*: If paid in July, $5; August, $10; September, $20; October, $25; November, $30; December, $35. *Penalty*: If not paid by December 31st corporate rights forfeited. *N. B.* Registration blanks are mailed to corporation on or before June 15th.

2. *Annual Statement.* To be filed on or before July 1st of each year in office of Secretary of State. *Contents*: (1) amount of authorized capital, (2) amount of paid-up capital, (3) par value thereof, (4) actual value thereof per share, (5) cash value of all property in Missouri, (6) cash value of all property outside Missouri, (7) total indebtedness secured and unsecured on June 1st preceding, (8) surplus and undivided profits, (9) clear market value of capital and surplus, including all property and assets. Blanks furnished on June 15th. Does not apply to express companies paying annual tax on gross receipts within the state, insurance companies paying like tax, farmers mutual insurance companies, mutual automobile insurance companies whose capital is divided into shares, and corporations exempted from taxation.

3. *Special Reports.* As to financial condition, must be made at any time on demand of Secretary of State or supervisor of corporations; failure of officers to comply is a misdemeanor.

4. *Anti-Trust Affidavit.* To be made and filed with Secretary of State at time of registration. *Contents*: Affidavit setting forth that it has no part of its business or interests in or with any trust, etc., in violation of laws relating to pools, trusts and combinations. Blanks furnished June 15th.

Montana

Annual Statement. To be filed by March 1st of each year, in office of County Clerk and recorder of county where principal place of business is located (and certified copy with Secretary of State), signed by President or Vice-President and a majority of directors, inclusive of President or Vice-President, and verified by oath of President, Vice-President, Secretary or Treasurer. This is to be a statement of condition of corporation on December 31st preceding. *Contents*: (1) amount of authorized capital, (2) proportion paid in, (3) amount paid in in cash, (4) amount issued in payment of property purchased or services, (5) amount of existing debts, (6) names and addresses of directors and of President, Vice-President, General Manager, Secretary and Treasurer. *Penalty*: Directors personally liable for corporate debts incurred during default. Does not apply to banks, trust companies and building and loan associations.

Nebraska

1. *Annual Notice of Indebtedness.* Signed by President and majority of directors, and published in a newspaper printed in the county or counties in which business is transacted, or if none therein, then in nearest newspaper in the State. All such notices with affidavit of publication attached must be filed with county clerk where corporation has principal place of business, within 10 days of last publication. *Contents*: Amount of all existing debts of the corporation. *Penalty*: After assets of corporation are first exhausted, all stockholders are personally liable for existing debts and for all that shall be con-

tracted until notice is given, to extent of unpaid subscriptions and in addition to amount of capital stock owned by such individuals.

2. *Annual Statement.* Verified by oath of President and Secretary and published annually in a newspaper of general circulation in county where principal office is located. *Contents*: A "full, fair and detailed statement of the condition of the company." Does not apply to religious societies.

Nevada

No statutory provisions.

New Hampshire

1. *Certificate of Payment of Capital Stock.* To be filed on or before March 1st, annually, in office of town or city where corporation has principal place of business, until capital stock is fully paid up. This consists of a list of names and places of residence of all stockholders certified under oath by Treasurer of Railroad Corporation or clerk of every other dividend paying corporation. When capital stock all paid for, certificate to this effect must be filed and recorded. *Penalty*: $50 fine for each neglect; for wilful omission or refusal to file, with intent to defraud, not more than $5,000 fine or imprisonment for not more than 3 years, or both.

2. *Annual Returns to Secretary of State.* To be made to Secretary of State on or before April 1st, in writing, signed and sworn to by President or Vice-President and Treasurer or Assistant Treasurer. (Blanks furnished by State Secretary on request). *Contents*: (1) address of principal office in New Hampshire and elsewhere where corporation does business wholly outside New Hampshire, (2) names and addresses of directors and officers, (3) amount of authorized capital, (4) amount, number of shares and par value thereof, of outstanding capital. (5) total assets and liabilities exclusive of capital, and (6) its surplus or deficit, if any appearing on books as of preceding January 1st. *Filing fee*, $5.00. *Penalty*: If return not filed by April 1st, an additional $5.00 fee. For wilful neglect, not more than $1,000 fine.

3. *Copies to Librarian.* Directors and other officers shall transmit to librarian of State Library copies of all reports made by them within 30 days after the same are published.

New Jersey

1. *Annual Report.* Authenticated by signatures of President and one other officer, or by any two directors, to be filed with Secretary of State within 30 days after first election of officers and directors and annually thereafter within 30 days after time appointed for holding annual election of directors. *Contents*: (1) name of corporation, (2) location (town, city, street and number) of registered officer in New Jersey and name of agent against whom process may be served, (3) character of business, (4) amount of authorized, issued and outstanding capital stock, (5) names and addresses of directors and officers and when term of office expires, (6) date of next annual meeting for election of directors, (7) whether name of corporation has been continually displayed at entrance of registered office in New Jersey; and whether it has kept at said office a stock transfer book and stock book with names and addresses of stockholder and number of their shares, open to their inspection. Does not apply to corporations under supervision of banking or insurance departments. *Penalty*: $200 forfeit to the State, and directors ineligible for any office as directors or otherwise. Director may protect himself by personally filing certificate with Secretary of State.

New Mexico

1. *Annual Report.* Authenticated by signatures of President and one other officer, or by any two directors, filed with State corporation commission within 30 days after first election of directors and officers and annually thereafter within 30 days after time appointed for holding annual election of directors. *Contents*: (1) name (2) location of registered office in New Mexico and name of agent for service of process, (3) character of business, (4) amount of authorized, issued and outstanding capital stock, (5) names and addresses of officers and directors and when terms of office expire (6) date of next annual meeting for election of directors. *Penalty*: If report not filed within 90 days after notice of delinquency from state corporation commission, right to do business in New Mexico forfeited. Business may then be resumed on payment of $5.00 and filing of all delinquent annual reports. Blanks furnished by commission. Above section does not apply to religious, charitable, or benevolent corporations or those not organized for profit.

2. *Statement that Corporation is not in Active Business.* Applies to same corporations as above. Executed by any two stockholders, directors or officers, filed with corporation commission, consisting of a statement that corporation is no longer engaged in active business in the State. Filed in lieu of annual report. Corporation may then be revived by resumption of active business and filing of annual report.

New York

Financial Statement to Stockholders. Treasurer or other fiscal officer to make and deliver to party or parties requesting it (but only one such statement a year), within 30 days after written request of stockholders owning 3% of shares, a statement, on oath. Copy to be kept on file for 12 months thereafter, open to inspection of stockholders. *Contents*: A particular account of all assets and liabilities. Supreme Court or any justice thereof may extend time. *Penalty*: $50 to person making request and $10 for every 24 hours until such statement is furnished. Does not apply to corporations formed under or subject to banking and/or insurance laws.

North Carolina

Annual Report on Capital Stock. On or before May 1st annually corporation must furnish tax information in reports, under oath, under Revenue and Machinery Acts. In addition to information required in annual report under those Acts, spaces shall be provided for corporation to report: (1) whether stock, if any, issued by it was issued for cash or for purchase of property, designating what property, (2) names of officers and directors with date of election or appointment, terms of office, residence and P. O. address of each, (3) character of business, (4) name of agent for service of process. Stock issued for payment of construction as fully paid not to be reported as issued for cash, but according to the facts. *Penalty*: $100 forfeit to the State.

2. *Special Reports.* Secretary of State may call for special reports of same character as regular reports at such times as he may deem requisite for the public interest, but no fees to be charged therefor.

North Dakota

1. *Annual Report.* Due between July 1st and August 1st in each year. Report to be under seal of corporation, signed and sworn to by President, Secretary, Managing Agent or other officer or receiver or

assignee, and filed in office of Secretary of State. *Contents*: (1) Location of principal office in North Dakota (2) names, residence and P. O. address of officers, (3) date of expiration of their terms of office, (4) whether or not corporation is pursuing active business under charter, and (5) kind of business engaged in. *Filing fee*, $2.50. *Penalty*: Failure to report is *prima facie* evidence that corporation is out of business. Failure to file report and pay fee within 60 days after notice of default from Secretary of State, charter to be cancelled. Reinstatement on filing report and payment of additional fees. Secretary of State to furnish blanks. Does not apply to railroads, banking, insurance, religious corporations and those not organized for profit.

2. *Reports of Corporations Engaged in Mining, Manufacturing and/or other Industrial Pursuits.* Report to be signed by President and majority of directors and verified by oath of President or Secretary, and filed in office of register of deeds in county where business is carried on, within 20 days from January 1st and must also be published in some newspaper published at or nearest to the place where business is carried on. *Contents*: (1) capital stock and amount thereof actually paid in, (2) amount and nature of indebtedness and amounts due the corporation, (3) number and amount of dividends and when paid, and (4) net amount of profits. *Penalty*: For wilful neglect or refusal to make or sign such a report; guilty of misdemeanor.

3. *Reports of Corporations Dealing in Securities.* Applies to corporations issuing, selling or offering for sale their stocks, securities, notes, obligations, bonds, or other evidences of indebtedness. Report to be made to State Bank Examiner at his demand, in such form as he may prescribe. Verified by oath of Secretary or chief executive officer. *Contents*: Detailed itemized report of assets, liabilities and business transacted. Filed in office of the Examiner, for information of the public.

Ohio

1. *Report on Issuance of Stock for Consideration other than Money only.* Within 60 days after such shares issued, certificate must be filed in office of Secretary of State, signed by President or Vice- President and Secretary or Assistant Secretary. *Contents*: (1) number and class of shares so issued, (2) description of consideration other than money, (3) total number of shares of each class authorized by articles and total number of shares of each class outstanding. After corporation has transferred surplus to stated capital and issued additional shares as stock dividend, it shall within 60 days file the above certificate stating (1) number and class of shares outstanding prior to and after the transfer of surplus, (2) amount of surplus transferred to stated capital, and (3) stated capital thereafter. Does not apply to reorganization or conversion or exchange of securities, nor to banks, trust companies, insurance companies, or public utilities. *Penalty*: $25 per day for each day of omission to file after time limited.

2. *Financial Statement to Stockholders.* At annual meeting, or any other meeting at which directors are elected, statement to be laid before shareholders. *Contents*: Statement of profit and loss and balance sheet containing (1) summary of assets and liabilities, (2) summary of profits earned, (3) dividends paid, and (4) other changes in surplus account, made up to a date not more than 4 months before such meeting, from date last statement was made up. Such statement must have appended a certificate, signed by President or Vice- President and Treasurer or Assistant Treasurer, or Public Accountant stating that it is true and correct. Corporation must mail a copy of such statement to shareholder requesting it in writing after notice of meeting. *Penalty*: Fine of $100, and $10 per day, five days after such request to each shareholder making request.

Oklahoma

Annual Report of Corporation Holding Lands. Applies to corporations owning real estate other than that within corporate limits of cities and towns, except real estate necessary for carrying on of business. Report to be filed in office of corporation commission by President, Secretary or Treasurer, within 20 days after January 1st, verified by oath of President, Secretary or Treasurer, and duplicate, verified on oath, filed and recorded in office of register of deeds in county where real estate is located. *Contents*: (1) list of all such lands, (2) description of same, (3) date such realty was acquired, and (4) amount of claims of corporation in satisfaction of which realty was acquired. *Penalty*: Fine of not less than $25, not more than $200; if not paid within reasonable time, assessed against land and collected as a tax.

Oregon

No statutory provisions.

Pennsylvania

Statement to Stockholders. Applies to corporations engaged in manufacture of iron and steel, or both, or of any other metal, or of any article of commerce from wood or metal, or both. Full and complete statement of business and affairs to be laid before the stockholders annually by the President and directors.

Philippine Islands

No reports are required, but governer-general may order attorney general or other insular officer at any time to make examination of business affairs and examine under oath the directors, officers or stockholders in relation to the business.

Porto Rico

1. *Annual Report to Secretary of Porto Rico.* Due not later than March 15th in each year. Report filed in office of Secretary of Porto Rico, authenticated by signature of President and one other officer, or by any two directors. *Contents*: (1) name, (2) location, town or city, street and number of principal office in Porto Rico, (3) object of business, (4) amount of authorized, and issued and outstanding capital and amount paid, and itemized statement of assets and liabilities, (5) names and P. O. addresses of directors and officers and dates terms expire, (6) date of next annual meeting for election of directors, (7) whether corporation has kept at principal office a stock transfer book and stock book showing names and addresses of stockholders and number of their shares, open to inspection of stockholders. *Penalty*: $50 fine and costs, and officers and directors ordered to comply. Failure to obey such order punishable as contempt of court.

2. *Annual Report to Treasurer of Porto Rico.* Due not later than March 15th in each year. Report filed in office of Treasurer of Porto Rico, authenticated by signature of President and one other officer, or any two directors. *Contents*: (1) a true and exact balance sheet showing financial condition as of January 1st, and (2) a true and exact report giving general balance sheet showing true financial condition at end of past fiscal year and giving statement of income or man-

ufacturing account for said fiscal year and in such detail as Treasurer of Porto Rico may require. *Penalty*: Same as for failure to file report to Secretary (above).

Rhode Island

Annual Report. Due during month of February in each year. To be filed in office of Secretary of State and certified by some officer under corporate seal. *Contents*: (1) name, (2) location, town or city, street and number, of place of business or principal office in Rhode Island, (3) character of business, (4) amount of authorized, and issued outstanding capital stock, stating separately amount of each class of stock, (5) names and addresses of directors and officers and dates of expiration of terms of office, (6) name and address of resident attorney, if Treasurer not a resident of Rhode Island, (7) date of next annual stockholders' meeting. *Filing fee*, $2.00. *Penalty*: Fine not exceeding $200. Blanks furnished by Secretary of State by Feb. 1st, but corporation not relieved of duty to file if not received.

South Carolina

Annual Statement to Stockholders. Due on or before December 30th in each year. Made under oath by President or other officer who has custody of funds and a copy delivered or mailed to each stockholder *who may request it in writing*. *Contents*: General itemized statement under oath showing actual assets and liabilities. Not necessary to set out names of creditors. Proof of mailing considered a compliance. *Penalty*: Any officer failing or refusing to furnish within 30 days after demand, fined not less than $25 nor more than $100 or imprisoned not more than 30 days. Making false report is perjury.

South Dakota

1. *Annual Report.* Due before March 1st of each year. File with Secretary of State. Report sworn to by President, Secretary, Treasurer, or General Manager as of preceding December 31st. *Contents*: (1) name and location of principal office or place of business within and without state, (2) names and addresses of officers, (3) nature of business transacted during preceding year, (4) amount of capital stock paid in money, property or services. (5) total amount of business transacted in preceding year and true value of all property held, (6) total amount of business transacted in South Dakota, during preceding year, (7) amount of capital stock represented in South Dakota by property located and business transacted in South Dakota during preceding year. *Filing fees*, $2.00; if report shows increase of capital employed in South Dakota, additional fee of $1.00 for each $1,000 of capital stock in excess of $25,000, or in excess of proportion of capital stock already paid for. *Penalty*: $25.00 if filed before April 1st. If not filed then, license revoked. Does not apply to railroad, religious, benevolent, fraternal or insurance corporations.

2. *Report to Stockholders.* Treasurer must make a statement under oath on written request of owner or owners of 20% of stock and deliver it to person or persons making request within 20 days, and keep a copy on file for 6 months. (Not oftener than once every six months). *Contents*: Written statement under oath embracing particular account of assets and liabilities in detail. *Penalty*: Treasurer forfeits to persons making request $50, and $10 for each 24 hours default thereafter.

Tennessee

1. *Report of Immigration, Real Estate & Labor Associations.* Statement of affairs printed annually in January in newspaper where

principal office is located. *Contents*: (1) amount of capital, (2) value of land owned, (3) liabilities, (4) debts, etc.

2. *Report of Cotton Compress & Warehouse Associations.* Statement, sworn to by President and Secretary, published annually in January in newspaper printed in county of principal office or else nearest county. *Contents*: (1) capital stock; amount paid in cash and amount secured by stockholders' notes, (2) outstanding liabilities, (3) list of names of stockholders.

3. *Report of Mining, Quarrying, Boring & Manufacturing Companies.* Sworn statement made and published by President annually in newspaper printed in county of principal office, or nearest county. *Contents*: (1) amount of capital stock, (2) existing liabilities, (3) list of names of stockholders. *Penalty*: False reports; person making is liable for all damages.

Texas

No statutory provisions.

Utah

Report on Capital Stock. To be filed at time of filing articles of incorporation and/or all amendments thereto. Report in writing, verified by 2 principal officers, filed with county clerk of county where principal office is located, and certified copy filed with Secretary of State together with certified copy of articles of incorporation. *Contents*: Amount and proportion of capital stock represented by property and business in Utah. *Filing fees*, 25c. on each $1,000 or fraction thereof of proportion of capital stock represented by property and business set aside for transaction of business in Utah, with additional $5.00 for license fee. If increase in capital, a further fee of 25c. on each $1,000 or fraction of such increase. No par shares $100 each. Does not apply to insurance companies, corporations not organized for profit, canal or irrigation companies, water users' associations.

Vermont

1. *Annual Report.* Report showing condition on January 1st preceding, verified by President and Treasurer, or majority of directors, filed with Secretary of State before March 1st in each year. Corporation may file within 2 months after expiration of fiscal year, showing condition at close of fiscal year. Secretary of State may extend time one month for cause. *Contents*: (1) amount of outstanding capital, (2) total amount of indebtedness, (3) amount of indebtedness secured by mortgage or pledge of corporate property, (4) amount of indebtedness not so secured, (5) total cash on hand, (6) amount of assets, including cash on hand, (7) names of directors and clerk. (In case of no par value stock, state that such shares are without par value). *Penalty*: Corporation liable $10 for each day of neglect.

2. *Report of Change of officers.* If during period between times for annual report any changes in officers, directors or clerk is made, President or Clerk must certify such change to Secretary of State under a like penalty as above.

Virginia

1. *Annual Report.* Due upon organization and annually thereafter within 30 days after time appointed for annual stockholders' meeting. Report filed in office of State Corporation Commission, authenticated by signature of President or one of Vice-Presidents or Secretary. *Contents*: (1) name, (2) location, county or city, street and number,

of principal office in Virginia and name of agent to receive service of process, (3) character of business, (4) amount of authorized and issued and outstanding capital, showing classes separately, if any, (5) names and addresses of officers and directors and when terms of office expire, (6) date of next annual stockholders' meeting. *Penalty*: Fine of not less than $25 nor more than $100.

2. *Report of Status, Business and Condition.* The State Corporation Commission *may require* every corporation during January in each year, within such time as it may prescribe, to make to the commission on prescribed forms such report of its status, business and condition as the Commission may call for.

3. *Certification of Officers.* After each annual stockholders' meeting, the corporation must certify to the clerk of the court wherein its charter is recorded, a list of officers and directors elected at said annual meeting. *Filing fee*, 25c. If all are non-resident of city or county where principal office is located, corporation must before commencing business appoint a practising attorney at law residing in county to receive process. If revoked, a new power to be executed and recorded; duplicate filed with clerk of corporation commission. *Penalty*: Failure to file within 60 days after annual meeting, fine of not less than $10 nor more than $100; each day's neglect a separate offense. Default for more than 6 months, charter forfeited.

WASHINGTON

Annual Report. Statement, sworn to by President and attested by Secretary and sealed with corporate seal, filed with county auditor of county where principal place of business is located, on or before second Tuesday of January in each year, *and* at such other times as corporation may elect. *Contents*: List of all officers, with titles, names and addresses and duration of term. If corporation fails to comply, service of process against corporation may be made by serving duplicate copies on Secretary of State.

WEST VIRGINIA

1. *Report to Stockholders.* Made by Board of Directors to Stockholders at annual meeting. *Contents*: (1) property and funds of the corporation and estimated value thereof, (2) debts due to the corporation, distinguishing good from bad debts, (3) debts and liabilities of the corporation, (4) amount of capital paid-in, (5) estimated surplus or deficiency, (6) amount of dividends declared, and (7) profits accruing or losses incurred during preceding year.

2. *Report to Secretary of State.* Made by Board of Directors within 90 days after first election and after any election or action whereby officers (President and/or Secretary) or principal office are changed, and filed with Secretary of State. *Contents*: (1) names and P. O. addresses of President and Secretary, and (2) P. O. address with street and number, of principal office of corporation. *Penalty*: Fine of not less than $25 nor more than $100.

WISCONSIN

1. *Annual Report.* Report sworn to by President, Secretary, Treasurer or General Manager, or assignee or receiver and filed with Secretary of State between January 1st and April 1st of each year. The report being as of (preceding) January 1st. *Contents*: (1) name and location with street and number, (2) name and address, with street and number, of officers and directors, (3) amount of authorized capital, (4) amount of capital paid in, (5) whether corporation in active

business during preceding year, (6) nature of business during preceding year, (7) in what states corporation is licensed to transact business. *Penalty*: If not filed by June 1st, forfeit of $10 and costs of publication. If not filed by following January, forfeiture of charter.

2. *Report of Changes in Officers.* Whenever any change is made in officers, the names and addresses of officers elected shall be filed with Secretary of State within 20 days after such change.

3. *Annual Statement to Stockholders.* Statement and abstract of assets and liabilities and financial transactions during preceding year, verified by affidavit of Treasurer or other proper officer and filed at least once a year in principal office and kept for use of stockholders. *Contents*: Brief statement of sources whence receipts have been received, stated in classes, and a similar statement of expenditures showing amount disbursed for each class of objects and purposes. *Penalty*: Corporation and officers forfeit not less than $25 nor more than $100 for each failure or neglect, to be collected in civil action by any stockholder or creditor aggrieved. Does not apply to railroad corporations.

WYOMING

Report to Stockholders. At written request of person or persons owning 15% of stock, made to Treasurer, he must make a statement of affairs under oath and deliver it to such persons within 20 days after demand and keep a copy on file in his office for 6 months thereafter, open to inspection of stockholders. (Treasurer need only deliver one such statement every six months. *Contents*: Particular account of assets and liabilities in minute detail. *Penalty*: $50 forfeit to person making request, and $10 for each 24 hours' neglect thereafter.

PERTINENT EXTRACTS FROM UNIFORM STOCK TRANSFER LAW

(New York Statute)

§ 162. *How title to certificates and shares may be transferred.* Title to a certificate and to the shares represented thereby can be transferred only:

(a) By delivery of the certificate indorsed either in blank or to a specified person by the person appearing by the certificate to be the owner of the shares represented thereby, or

(b) By delivery of the certificate and a separate document containing a written assignment of the certificate or a power of attorney to sell, assign, or transfer the same or the shares represented thereby, signed by the person appearing by the certificate to be the owner of the shares represented thereby. Such assignment or power of attorney may be either in blank or to a specified person.

The provisions of this section shall be applicable although the charter or articles of incorporation or code of regulations or by-laws of the corporation issuing the certificate and the certificate itself provide that the shares represented thereby shall be transferred only on the books of the corporation or shall be registered by a registrar or transferred by a transfer agent.

§ 163. *Powers of those lacking full legal capacity and of fiduciaries not enlarged.* Nothing in this article shall be construed as enlarging the powers of an infant or other person lacking full legal capacity, or of a trustee, executor, or administrator, or other fiduciary, to make a valid indorsement, assignment, or power of attorney.

§ 164. *Corporation not forbidden to treat registered holder as owner.* Nothing in this article shall be construed as forbidding a corporation,

(a) To recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, or

(b) To hold liable for calls and assessments a person registered on its books as the owner of shares.

§ 165. *Title derived from certificate extinguishes title derived from a separate document.* The title of a transferee of a certificate under a power of attorney or assignment not written upon the certificate, and the title of any person claiming under such transferee, shall cease and determine if, at any time prior to the surrender of the certificate to the corporation issuing it, another person, for value in good faith, and without notice of the prior transfer, shall purchase and obtain delivery of such certificate with the indorsement of the person appearing by the certificate to be the owner thereof, or shall purchase and obtain delivery of such certificate and the written assignment or power of attorney of such person, though contained in a separate document.

§ 166. *Who may deliver a certificate.* The delivery of a certificate to transfer title in accordance with the provisions of section one hundred and sixty-two is effectual, except as provided in section one hundred and sixty-eight, though made by one having no right of possession and having no authority from the owner of the certificate or from the person purporting to transfer the title.

SECTION TEN

RULES FOR LISTING AND SPECIMEN APPLICATION—NEW YORK STOCK EXCHANGE

All stock exchanges have rules that govern the listing of securities for trading on their floors. Strict compliance with these rules is a prerequisite to listing. The corporation which makes application must submit all of the information called for and must measure up to the standards laid down by the committee on listing. Admission to the trading list does not constitute an endorsement or a recommendation as to the worth of the security. The exchange simply supplies a market, and demands information respecting numerous points tending to show the legality, regularity and soundness of the enterprise.

The latest listing requirements of the New York Stock Exchange are printed here, together with a specimen application for listing of Thompson-Starrett Company, Inc. in the belief that these exhibits repay careful examination and study from an accounting standpoint.

LISTING REQUIREMENTS—NEW YORK STOCK EXCHANGE.

Committee on Stock List.

July 1, 1925.

The Committee will meet Mondays at 3:15 p. m.

An application, *conforming to these requirements,* signed by an executive officer of the applying corporation, voting trustees, or depositary committees, and nine printed or typewritten copies must be filed with the Secretary of the Exchange at least five days prior to date set for consideration.

Applications must be accompanied by the required papers and agreements and by a check to be drawn to the order of "Treasurer, New York Stock Exchange" for a fee in accordance with the following schedule, such fee being computed separately for each class of security included in an application. In addition to such fees, companies making application are required to pay cost of printing. Printer's bills will be submitted directly to the applicant.

Basic Fees.

The basic fee for listing stock or securities arising out of stock, such as Certificates of Deposit for stock, Interim Certificates for Stock, Allotment Certificates for Stock, Voting Trust Certificates, etc. shall be, in the case of certificates having either no par value or a par value of $100 or less, one and two-tenths cents (1.2c.) per share, any fraction of ten thousand (10,000)

shares, over and above a multiple thereof, to be counted as ten thousand shares for this purpose. The basis fee for listing bonds, debentures, notes and similar instruments having a face value and not being issued in denominations of less than $100 shall be one hundred and twenty dollars ($120.00) per million dollars ($1,000,000) face value or fraction thereof.

In any case, where a fee is to be charged, whether at the basic rate or at a modified rate, the minimum fee will be $120.00.

The full basic fee will be charged in all cases, unless otherwise herein stated.

Modifications of Basic Fees.

1. In cases where, after an initial listing, a change is involved between par and no par in either direction, or is in the amount of the par value of the security, or represents a greater or smaller number of shares of no par stock involving the cessation of trading in no-par stock theretofore listed (as distinguished from a stock dividend in which the old stock continues to be traded in): the fee for such number of the substituted shares to be listed as is not in excess of the number of shares to be stricken from the list shall be one-fourth of the basic fee. For all shares, so issued, in excess of the number of shares to be stricken from the list, the full basic fee will be charged.

2. Where there is a change in the classification or name of a stock, without alteration of any preferences which it may bear, such as from Capital to Common, or vice versa, and without alteration in the number of shares, one-fourth of the basic fee will be charged. When, however, the change of name of a stock having a preference involves also the giving of a higher or lower preference to the stock, the full basic fee will be charged.

3. Where the change is in the nature of an extension of a time limit, as in the case of an extended voting trust, the number of shares listed not being increased, one-fourth of the basic fee will be charged.

4. Where the change is from *listed* stocks or bonds to Certificates of Deposit, whether or not a reorganization of the listed company is involved, one-fourth of the basic fee will be charged.

5. When the change is from Certificates of Deposit to stock or bonds:

(*a*) If such stock or bonds are identical with formerly listed securities, for which such certificates of deposit were issued, no fee will be charged up to the number of shares so formerly listed. For additional shares, the full basic fee will be charged.

(*b*) Where the certificates of deposit have been listed first and are thereafter replaced by the securities initially deposited, one fourth of the basic fee will be charged for listing such securities.

(*c*) If such stock or bonds represent securities issued under a reorganization, or in any other respect differ from the securities for which such Certificates of Deposit were originally issued, the full basic fee will be charged, whether or not the securities were listed for which the Certificates of Deposit were originally issued.

6. Where voting trust or stock trust certificates are issued in exchange for listed stock of the same company, one-fourth of the basic fee will be charged.

7. When voting trusts or stock trusts terminate and where the stock replacing them is identical with formerly listed stock for which such voting or stock trust certificates were issued, there will be no fee up to the number of shares so formerly listed. For additional shares, the full basic fee will be charged. If, however, the stock replacing such certificates was not formerly listed, one-fourth the basic fee will be charged.

8. Where the name of a corporation is changed, without reorganization, merger or other change in its corporate structure, the fee will be one-fourth of the basic fee for such number of shares as may be issued not in excess of the

number of each class authorized to be listed prior to such change of name, plus the full basic fee for any additional number of shares. If, however, a reorganization or merger resulting in a new corporation is involved, the full basic fee will be charged on all shares to be listed.

9. In the case of a stock dividend, the additional stock issued is subject to the full basic fee. There is no additional fee as to the old stock.

An application for listing Governmental, State, County, or Municipal securities must be signed by a properly accredited official or by financial representatives, and be accompanied by required check, as above, and papers.

Specimen application furnished on request.

The employees of the Committee on stock list are instructed to assist in the preparation of applications to list whenever so requested. No charge will be made for such service.

REQUIREMENTS FOR ORIGINAL LISTING

Stock.

Every application for an original listing of capital stock shall recite:

A Where incorporated.

B (1) Amount applied for (whether temporary or permanent certificates); (2) authorized issue.

C (1) Date of charter; (2) duration.

D (1) Business; (2) special rights or privileges under charter or by-laws.

E (1) Whether capital stock is full paid; (2) non-assessable; and (3) whether liability attaches to shareholders.

F (1) Issues (by classes), dividend rate and par value; (2) total amount of each, authorized and issued; (3) increases and authority therefor, including (*a*) action by stockholders, (*b*) by directors and (*c*) by public authorities, etc.; (4) amount unissued, (*a*) options or contracts on same, (*b*) specific reservation for conversion.

G If preferred stock; (1) whether cumulative or non-cumulative; (2) preferences, including (*a*) voting power; (*b*) dividends; (*c*) distribution of assets on dissolution or merger; (*d*) redemption; (*e*) convertibility; (*f*) special provisions.

H Voting power of obligations of debt.

I (1) Purpose of issue; (2) application of proceeds; (3) amount issued for securities, contracts, property; description and disposition; (4) additional property to be acquired, with particulars, as required by paragraph *N*.

J (1) History of corporation; (2) of predecessor companies or firms, with location and stock issues (by classes); (*b*) conditions leading to new organization.

K Tabulated list of constituent, subsidiary, owned or controlled companies showing (*a*) date of organization; (*b*) where incorporated; (*c*) duration of charter; (*d*) business and (*e*) capital stock issues (by classes), par value, amount authorized, issued, owned by parent company.

L (1) Mortgage, and (2) other indebtedness showing (*a*) date, (*b*) maturity, (*c*) interest rate, (*d*) convertibility, (*e*) redemption by sinking fund or otherwise, (*f*) amount authorized, and (*g*) amount issued; (3) similar information regarding mortgage and other indebtedness of constituent, subsidiary, owned, or controlled companies.

M Other liabilities, joint and several, (1) guaranties, (2) leases, (3) traffic agreements, (4) trackage agreements, (5) rentals, (6) car trusts, etc., (7) terms of each, and provision for payment; (8) similar description of

other agreements or easements; (9) similar information as to constituent, subsidiary, owned or controlled companies.

N (1) Description, location, nature and acreage of property, (*a*) owned in fee; (*b*) controlled; (*c*) leased; (2) railroads, mileage completed, operated and contemplated; (3) equipment; (4) character of buildings and construction; (5) tabulated list of franchises showing (*a*) where granted, (*b*) date, (*c*) duration, (*d*) purpose; (6) timber, fuel or mining lands, water rights; (7) similar information as to constituent, subsidiary, owned or controlled companies.

O Policy as to depreciation.

P (1) Character and amount of annual output for preceding five years; (2) estimated output (character and amount) for current year; (3) number of employees.

Q (1) Dividends paid or declared; (2) by predecessor, and constituent, subsidiary, owned or controlled companies.

R Financial statements; (1) earnings for preceding five years, if available with interest charges, depreciation and federal taxes; (2) income and surplus account of recent date for at least two years, if available; (3) balance sheets of same dates; (4) balance sheet giving effect to recent financing, if any; (5) similar accountings for predecessor, constituent, subsidiary, owned or controlled companies; (6) corporation consolidated within one year previous to date of application, income and surplus account and balance sheet of all companies merged and balance sheet of applying corporation; (7) if in hands of receiver within one year previous to date of application, (*a*) income account and balance sheet of receiver at time of discharge if available, (*b*) balance sheet at close of receivership if available, and (*c*) balance sheet at date of reorganization.

S Agreements contained on pages 5 and 6 [of original].

T Fiscal year.

U Place and date of annual meeting.

V Location of principal and other offices.

W Names of (1) directors, classified, with addresses; (2) officers; (3) transfer agents, with addresses, (4) registrars, with addresses.

In addition to the above, applications from corporations which own or operate mines must recite:

A Patented and unpatented claims, by numbers.

B (1) Geological description of country; (2) location and description of mineral and other lands; (3) ore bodies; (4) average value of ore; (5) character and analysis; and (6) methods of treatment.

C History of workings, (1) results obtained; (2) production each year.

D (1) Ore reserves compared with previous years showing separately as to character and metal content; (2) estimate of engineer as to probable life of mines; (3) probabilities by further exploration.

E (1) Provisions for smelting and concentration; (2) proximity of property to railway or other common carrier.

F Properties in process of development; income account if available; guarantees for working capital and for completion of development in event income account not available.

G Total expenditures for preceding five years for acquisition of new property, development, proportion charged to operations each year.

H (1) Policy as to depletion; (2) acquisition of new property; (3) new construction and development.

I Production by tons, number of tons of ore treated, average assay yield, percentage of extraction, recovery per ton of ore, for preceding five years, if available.

In addition to the above, applications from corporations which own or operate oil and gas wells must recite:

A (1) Brief history of oil field; (2) geological description of country; (3) character and gravity of oil.

B (1) Total area of oil land (developed and undeveloped), (*a*) owned, (*b*) leased, (*c*) controlled, (*d*) proven, (*e*) under exploitation, (*f*) royalties.

C (1) Number of wells (oil or gas) on each property, (*a*) in operation, (*b*) drilling, (*c*) contemplated, (2) average depth of wells drilled, (*a*) shallowest, (*b*) deepest, (*c*) probable life; (3) whether oil sands are dipping.

D (1) Gross daily production—initial and present; (2) annual gross production from each property for preceding five years, if available; (3) estimated gross production for current year.

E (1) Storage, capacity and location; (2) (*a*) amount of oil stored, (*b*) character, (*c*) value, (3) pipe line, (*a*) gauge, (*b*) capacity, (*c*) mileage.

F (1) Refineries, (*a*) capacity, (*b*) acreage, (*c*) employees, (*d*) products and by-products.

G Properties in process of development; income account if available; guaranties for working capital and for completion of development in event income account not available.

H Total expenditures for preceding five years for acquisition of new property, well drilling and development, proportion charged to operations each year.

I (1) Policy as to depletion; (2) acquisition; and (3) development of new properties.

(*Note*: *For requirements as to voting trust or stock trust certificates, or certificates of deposit, see Page* 4 [*of original*]).

Bonds.

An application for an original listing of bonds shall recite all information required for listing stock, *and*

A (1) Full title, (2) amount applied for (whether temporary or permanent), denominations and numbers; (3) amount authorized and outstanding, authority therefor, including (*a*) action by stockholders, (*b*) directors, and (*c*) public authorities, etc.; (4) whether bonds are coupon (registerable as to principal) or registered, interchangeable or exchangeable; (5) exchangeability or convertibility into other securities and terms.

B Names and addresses of trustees.

C (1) Date of issue and maturity; (2) interest rate; (3) places at, and dates for payment of interest and principal; (4) where registerable or transferable; (5) kind and standard of money, and options; (6) tax exemptions; (7) whether redeemable or purchasable in whole or part by sinking fund or otherwise, showing (*a*) dates, (*b*) price, (*c*) duration and place of published notice; (8) specified reservation of stock for conversion.

D Provisions for declaration of principal due and payable in event of default of payment of interest, or other defaults, and waiver; percentage of outstanding bonds controlling trustee.

The Committee will object to any provision in an Indenture whereby the consent of more than 30% *of the outslanding bonds is necessary to initiate any action by the Trustees which may appear necessary for the protection of bondholders, subject, however, to the limitation that there is no objection to a provision by which the action of a majority in amount of such bonds will rescind any minority action.*

E Purpose of issue and application of proceeds, similar to that called for by Paragraph *I* of the Requirements for Listing Stock; provisions as to additional issue.

F Disposition of bonds refunded, redeemed or purchased for sinking fund, and mortgage securing same.

G Mortgage or indenture provisions for (1) serial issues; (2) values in United States gold coin; (3) issuance in foreign languages and (4) that the English version governs; (5) terms of exchangeability of bonds payable in foreign places for bonds payable in United States or vice versa.

H (1) Security—Mortgage, indenture of trust, or other agreement; and (2) liens, (*a*) properties covered, (*b*) mileage of railway lines, (*c*) buildings, (*d*) equipment, (*e*) securities, (*f*) rights, (*g*) privileges, (*h*) titles, (*i*) franchises, (*j*) leases, etc.; (3) other liens covering same or any part of same properties, (4) guaranty and terms.

I Any unusual provisions or covenants contained in mortgage, or deed of trust.

REQUIREMENTS FOR LISTING OF ADDITIONAL AMOUNTS.

Refer to previous applications and last application by number and date, and recite:

A Where incorporated.

B (1) Amount applied for; (2) amounts, authorized and outstanding; (3) authority for issue, including (*a*) action by stockholders, (*b*) by directors, and (*c*) by public authorities, etc.; (4) total amount applied for.

C (1) Purposes of issue; (2) application of proceeds; (3) amount, description and disposition of securities exchanged for new issues; (4) additional property acquired or to be acquired, with particulars as required by Paragraph *N* on page 2 [of original].

D Dividends paid and declared since previous application.

E Changes, if any, in (1) charter; (2) by-laws; or (3) capitalization since previous application.

F Changes in property, if any, since previous application.

G (1) Character and amount of output since previous application or earnings as in application for original listing; (2) estimated output (character and amount) for current year; (3) number of employees.

H Income account, surplus account and balance sheet of recent date, also for constituent, subsidiary, owned or controlled companies, or a consolidated income account, consolidated surplus account and a consolidated balance sheet.

I Policy as to depreciation and depletion.

J Fiscal year, place and date of annual meeting, location of offices, and names of officials as covered by Paragraphs *T*, *U*, *V* and *W* on page 2 [of original].

(*Note*: *"When a corporation purposes to increase its authorized capital stock, thirty days' notice of such proposed increase must be officially given to the Exchange before such increase may be admitted to dealings."*)

(*Note*: *"When the capital stock of a corporation is increased through conversion of convertible bonds already listed, the issuing corporation shall give immediate notice to the Exchange and the Committee on Stock List may, thereupon, authorize the registration of such shares and add them to the list."*)

REQUIREMENTS FOR LISTING OF CERTIFICATES OF DEPOSIT, VOTING TRUST OR STOCK TRUST CERTIFICATES, ETC.

Every application for the listing of certificates of deposit, voting trust or stock trust certificates, etc., shall recite:

A (1) Name of applicant; (2) amount applied for (whether temporary or permanent certificates); (3) depositary; (4) security deposited, and whether listed; (5) registrar.

B (1) Date of agreement; (2) names of committee, or voting trustees; (3) terms of trust; (4) powers and duties of committee, trustees, or depositary.

C Reasons for deposit.

D (1) Duration of trust or deposit; (2) extensions or limitations; (3) final date of deposits; (4) provision for deposits without penalty for approximately thirty days after listing, or if no time limit for deposit of securities without penalty is fixed, an agreement that approximately thirty days' notice of such limitation of time shall be published and given to the Stock Exchange; (5) date of presentation of plan; (6) provisions for dissent and withdrawal; (7) percentage necessary to adoption; (8) pro rata, charges; (9) provisions for return of securities (or equivalent); (10) provision for payment of interest dividends, etc.

E Applications to list Voting Trust or Stock Trust Certificates to recite financial statements of company as in Paragraph *R* on page 2 [of original].

F Agreement to deliver definitive securities at termination of Voting Trust or Voting Trust to be extended.

G Agreement to have definitive securities listed.

H Agreement by Voting Trustees to have company publish its financial statements.

I Agreements contained on pages 5 and 6 [of original].

(*Note*: *Applications to list voting trust or stock trust certificates and certificates of deposit for securities not a delivery on the Stock Exchange must, in addition, comply with the Requirements.*)

Applications for each class of deposited securities shall be separate and certificates issued of distinctive colors.

PAPERS TO BE FILED WITH APPLICATIONS.

In addition to application for listing, the following papers must be filed:

For Stocks:

1 Three copies of charter, with amendments to date, one copy attested by proper public authority.

2 Three copies of by-laws, with amendments to date, one copy attested by an executive officer of corporation.

3 Three copies of leases, franchises, easements and special agreements, one copy of each attested by an executive officer of corporation.

4 One copy of resolutions of stockholders and directors and copy of proper public authority authorizing issue, each attested by an executive officer of corporation.

5 One copy of resolutions of stockholders or directors, and copy of proper public authority, authorizing issue of stock on conversion or other securities, attested by an executive officer of corporation.

6 One copy of resolutions of stockholders or directors directing specific reservation of authorized stock for conversion, attested by an executive officer of corporation.

7 One copy of resolutions of stockholders, board of directors, or executive committee attested by an executive officer of corporation, authorizing, by name, official to appear for listing securities (form may be had on application).

8 Opinion of counsel (not an officer or director of the corporation) as to legality of (*a*) organization, (*b*) authorization, (*c*) issue, and (*d*) validity of securities. *The Committee will not accept the opinion of an officer or director of an applying corporation nor of a firm in which the officer or director is a member, as counsel on any legal question affecting the corporation; nor will it accept the opinion of an officer or director of a guarantor corporation nor of a firm in which*

the officer or director is a member, on any legal question affecting the issuance of guaranteed securities.

9 Six copies of detailed distribution of securities, one certified (form may be had on application).

10 One copy of resolution appointing transfer agent and registrar, attested by an executive officer of corporation.

11 Certificate of registrar of amount of securities registered at date of application.

12 Report of qualified engineer covering actual physical condition of property at recent date.

13 Map of property and contemplated extensions.

14 Specimens of all securities to be listed.

15 Questionnaire (form may be had on application).

16 Certified copy of income accounts, surplus accounts and balance sheets contained in application.

17 Agreements.

18 Certified copy of printed circular issued by Bankers describing security, if available.

For Bonds:

19 All papers required for listing stocks and also ten copies of the mortgage or indenture, one copy (*a*) certified to by trustee, (*b*) with copies of all certificates of proper recording.

20 Trustees' certificate required on Page 6 [of original].

21 One copy of resolutions of stockholders or directors, and copy of proper public authority, authorizing issue of stock on conversion of bonds, attested by an executive officer of corporation.

22 One copy of resolution of stockholders or directors directing specific reservation of authorized stock for conversion, attested by an executive officer of corporation.

23 Certificate of disposition of securities redeemed or refunded.

24 Certificate as to collateral deposited.

25 Certified copy of release or satisfaction of underlying mortgages.

For Securities of Reorganized Corporations:

1 All papers required for listing stocks and bonds. *Opinion of counsel shall state that proceedings have been in conformity with legal requirements, that title to property is vested in new corporation and is free and clear from all liens and incumbrances, except as distinctly specified; and also as to equities of securities of predecessor corporation.*

2 Certified order of court confirming sale on foreclosure or other authority for reorganization.

3 Certified copy of plan of reorganization.

4 Certified income and surplus account and balance sheet at close of receivership, if available.

5 Certified balance sheet at date of reorganization.

For additional amounts:

1 Nos. 4, 5, 6, 7, 8, 9, 11, 15, 16, 17, 18 of papers required for original listings.

2 Nos. 1, 2, 3, 10, 12, 14 of said papers for stock, *if any changes have occurred therein since previous application.*

3 Nos. 1, 2, 3, 12, 14, 20, 21, 22, 23, 24, 25 of said papers for bonds, *if any changes have occurred therein since previous application.*

4 Certified copy of proper public authority for increase.

For Certificates of Deposit, Voting Trust, etc.:

1 Papers required for listing stocks and bonds.

2 Certified copies of any legal proceedings and court orders.

3 Three copies of deposit or trust agreement, one certified to by proper authority.

4 Three copies of circulars, issued by trustees or committee, one certified to by proper authority.

5 Certificates of amounts deposited.

AGREEMENTS.

To be made part of applications where applicable:

1 Not to dispose of an integral asset or its stock interest in any constituent, subsidiary, owned or controlled company, or allow any of said constituent, subsidiary, owned or controlled companies to dispose of an integral asset or stock interest in other companies, unless for retirement and cancellation, without notice to the Stock Exchange.

2 To publish once in each year and submit to the stockholders, at least fifteen days in advance of the annual meeting of the corporation, a statement of its financial condition, a consolidated income account covering the previous fiscal year and a consolidated balance sheet showing assets and liabilities at the end of the year; or an income account and balance sheet of the parent company and of all constituent, subsidiary, owned or controlled companies.

3 To maintain, in accordance with the rules of the Stock Exchange, a transfer office or agency in the Borough of Manhattan, City of New York, where all listed securities shall be directly transferable, and the principal of all listed securities with interest or dividends thereon shall be payable; also a registry office in the Borough of Manhattan, City of New York, other than its transfer office or agency in said city, where all listed securities shall be registered.

4 To notify the Stock Exchange thirty days in advance of the effective date of any change in the authorized amounts of listed securities.

5 Not to make any change in listed securities, of a transfer agency or of a registrar of its stock, or of a trustee of its bonds or other securities, without the approval of the Committee on Stock List, and not to select as a trustee an officer or director of the company.

6 To notify the Stock Exchange in the event of the issuance or creation in any form or manner of any rights to subscribe to, or to be allotted, its securities, or of any other rights or benefits pertaining to ownership in its securities, so as to afford the holders of its securities a proper period within which to record their interests, and that all rights to subscribe or to receive allotments and all other such rights and benefits shall be transferable; and shall be transferable, payable and deliverable in the Borough of Manhattan, City of New York.

7 To notify the Stock Exchange of the issuance of additional amounts of listed securities, and make immediate application for the listing thereof.

8 To publish promptly to holders of bonds and stocks any action in respect to interest on bonds, dividends on shares, or allotment of rights for subscription to securities, notices thereof to be sent to the Stock Exchange, and to give to the Stock Exchange at least ten days' notice in advance of the closing of the transfer books or extensions, or the taking of a record of holders for any purpose.

9 To redeem Preferred Stock in accordance with the requirements.

10 To notify the Stock Exchange if deposited collateral is changed or removed.

11 To have on hand at all times a sufficient supply of certificates to meet the demands for transfer.

The Committee recommends a date be fixed as record for dividends, allotment of rights and stockholders' meetings, without closing the transfer books.

Notice of rights, allotments, subscription privileges, to bondholders and shareholders, should be as of a date after authorization.

TRUSTEES OF MORTGAGES.

The Committee recommends that a trust company or other financial corporation be appointed trustee of mortgages, indentures, and deeds of trust; and when a State law requires the appointment of an individual as trustee, a trust company or other financial corporation be appointed as co-trustee.

Each mortgage, indenture, or deed of trust should be represented by a separate trustee.

The Committee will not accept as trustee:

(*a*) An officer or director of the issuing corporation;

(*b*) A corporation in which an officer of the issuing corporation is an executive officer.

The trustee shall present a certificate accepting the trust and certifying (1) securities are issued under the terms of the mortgage or indenture, giving the numbers, denominations and amount authenticated; (2) collateral deposited; (3) disposition of prior obligations. For additional issues of bonds, the trustee must certify that (1) increase is in conformity with terms of mortgage or indenture, giving numbers, denominations and amount authenticated; (2) additional collateral deposited; and (3) disposition of prior obligations.

The company and trustee shall notify the Stock Exchange of the holding, cancellation, or retirement of securities, by redemption, through the operation of sinking fund or otherwise.

The trustee must notify the Stock Exchange if deposited collateral is changed or removed, and furnish a list of collateral substituted.

A change of trustee shall not be made without the approval of the Committee.

TRANSFER AND REGISTRY.

Every corporation whose securities are listed upon the Stock Exchange must, in accordance with the rules of the Exchange, maintain (*a*) a transfer office and (*b*) a registry office, both in the Borough of Manhattan, City of New York. The transfer agency and registrar *shall not be identical*, and both must be acceptable to the Committee. A company cannot act as registrar of its own stock.

Where a stock is transferred at the company's office, the transfer agent or transfer clerk shall be appointed by specific authority of the board of directors to *countersign* certificates, in said capacity, and shall be other than an officer who is authorized to sign certificates of stock.

The entire amount of the capital stock of a corporation listed upon the Stock Exchange *must be directly transferable* at the transfer office of the corporation in the Borough of Manhattan, City of New York. When a corporation makes transfer of its shares in other cities, certificates shall be interchangeably transferable, and *identical in color and form*, except as to names of transfer agent and registrar; and the combined amounts of stocks registered in all cities shall not exceed the amount authorized to be listed.

Interchangeable certificates must bear a legend reciting the right of transfer in New York and other cities.

The registrar must file with the Secretary of the Stock Exchange an agreement to comply with the requirements in regard to registration and *not to register any listed stock, or any increase thereof, until authorized by the Committee.*

Certifications of transfer and registry must be dated and signed by an authorized officer of the transfer agent and registrar, respectively.

A change in the form of a security, of a transfer agency, or of a registrar, shall not be made without the approval of the Committee.

FORMS OF CERTIFICATES, ENGRAVING, ETC.

General Requirements.

(See Specific Requirements below.)

All securities for which listing upon the Exchange is requested, except as otherwise herein stated must be engraved and printed in a manner satisfactory to the Committee from at least two steel plates by an engraving company whose work the Committee is authorized by the Governing Committee to pass upon; the name of the engraving company must appear upon the face of all securities and also upon the face of coupons and the title panel of each bond. Securities must bear a vignette upon their face.

Said plates shall be: (1) *A border and tint plate* from which should be made a printing in color underlying important portions of the face printing; (2) *A face plate* containing the vignettes and descriptive or promissory portion of the document, which should be printed in black or in black mixed with a color. The combined effect of the impression from these plates must be as effectual security as possible against counterfeiting.

The printing of securities must be in distinctive colors, to make classes and denominations readily distinguishable.

All certificates, except as otherwise stated herein, must provide for transfer and for registration with dates. When a corporation makes transfers of its shares in other cities, certificates shall be identical in color and form, except as to names of transfer agent and registrar; certificates interchangeably transferable must bear a legend reciting the right of transfer in New York and other cities.

The Committee recommends that the text of securities shall provide for transfer in person or by duly authorized attorney upon surrender of the security properly endorsed.

A change in the form of a security, transfer agency, registrar, or trustee of bonds, shall not be made without the approval of the Committee.

The Committee will object to any security upon which an impress is made by a hand stamp, except for a date or power of substitution.

Bonds.

(In addition to the General Requirements above outlined, the following apply specifically to bonds.)

All bonds must be fully engraved and printed in a manner satisfactory to the Committee; face of bonds and coupons must bear a vignette.

The text of bonds should recite conditions of issuance, tax exemption, terms of redemption (by sinking fund or otherwise), convertibility, default, interchangeability or exchangeability of coupon and registered bonds, and conversion into other securities.

Bonds, in the text and on the reverse, must recite payment of principal and interest in the Borough of Manhattan, City of New York, and provide for transfer and registration. Coupons must recite payment of interest in the Borough of Manhattan, City of New York and tax exemption.

Registered bonds must carry a power of assignment in such form as the Committee may approve.

The Committee recommends that registered bonds be made interchangeable with coupon bonds.

Registered bonds interchangeable with coupon bonds shall bear a legend reciting numbers and denominations of coupon bonds, against which they are issued.

If coupon bonds of any denomination are interchangeable with coupon bonds of other denominations they shall contain such recital in the text and bear an appropriate legend on the reverse.

Registered bonds made such by detaching coupon sheets are not eligible for listing.

Forms of Legends for Bonds.

For coupon bonds of one denomination interchangeable with coupon bonds of other denominations:

"As provided in the Indenture, coupon bonds of the denominations of $1,000, $500 or $100, at any time outstanding, when surrendered with all unmatured coupons attached and upon the payment of charges, may be exchanged for an equal aggregate principal amount of coupon bonds of any other denomination of the same issue, of numbers not contemporaneously outstanding, with all unmatured coupons attached."

For a coupon bond of a thousand dollars exchangeable for coupon bonds of smaller denominations:

"The holder of this bond may, at his option, on surrender and cancellation and on payment of charges, as provided in the indenture, receive in exchange coupon bonds of this issue for an amount aggregating $1,000 in denominations of $.....of numbers not contemporaneously outstanding."

For coupon bonds of smaller denominations exchangeable for a $500 or a $1,000 coupon bond:

"The holder of this bond may, at his option, on surrender and cancellation of this bond and others of the same issue aggregating $500 or $1,000 and on payment of charges, as provided in the indenture, receive in exchange a coupon bond of this issue of a number not contemporaneously outstanding, for the amount aggregated."

For registered bond (s) issued for coupon bond (s) of denomination(s) of less than $1,000:

"This bond is issued in exchange for coupon bond(s) of this issue numbered.....in denominations of $.....not contemporaneously outstanding, aggregating the face value hereof and coupon bond(s) of this issue bearing the said number(s) and of the same denomination(s) will be issued in exchange for this bond upon surrender, cancellation and payment of charges provided in the indenture."

For registered bond(s) issued for $1,000 coupon bond(s):

"This bond is issued in exchange for coupon bond(s) of this issue numbered.....for $1,000 (each), not contemporaneously outstanding, and coupon bond(s) of this issue bearing the said number(s) will be issued in exchange for this bond upon surrender, cancellation and payment of charges provided in the indenture."

Stock.

(In addition to the above General Requirements, the following apply specifically to stock certificates).

The border and tint plate for one-hundred share certificates of stock shall have *said denomination engraved thereon in words and figures; the plates for smaller amounts shall bear some engraved device whereby the exact denomination of the certificate may be distinctly designated by perforation*; also conspicuously upon the face *"Certificate for less than one hundred shares."*

Certificates for every class of stock shall recite preferences of all classes.

Certificates of stock shall recite (1) ownership; (2) par value; (3) whether shares are *full* paid and (4) non-assessable; (5) preference as to dividends; (6) distribution of assets upon dissolution or merger; (7) terms of redemption; (8) convertibility; (9) voting power, or (10) other privilege; and (11) must bear the following legend:

This certificate is not valid until countersigned by the transfer agent, and registered by the registrar.

The following form is required upon the reverse of a certificate of stock:

For value received.....hereby sell, assign and transfer unto.....
.....shares of the *capital stock represented by the within certificate and do hereby irrevocably constitute and appoint
.....attorney to transfer the said stock on the books of the within named company with full power of substitution in the premises.

Dated.....19.....
.....

In presence of
.....

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular without alteration or enlargement, or any change whatever.

Certificates of Deposit, Voting Trust Certificates, etc.

In addition to the General Requirements above outlined, certificates of deposit and voting trust certificates must conform in every particular to the Specific Requirements as to stock certificates, except that the descriptive portion of a certificate of deposit may be typed satisfactorily to the Committee.

Temporary Certificates or Receipts.

Temporary certificates or receipts must conform to the General Requirements above outlined and to the Specific Requirements as to stock certificates, except that the text may be typed satisfactorily to the Committee, and need not bear a vignette.

REMOVALS OR SUSPENSIONS IN DEALINGS OF LISTED SECURITIES.

Whenever it shall appear that the outstanding amount of any security listed upon the Stock Exchange has become so reduced as to make inadvisable further dealings therein, the Committee may direct that such security be removed from the list and further dealings therein prohibited.

"The Governing Committee may suspend dealings in the securities of any corporation previously admitted to quotation upon the Exchange, or it may summarily remove any securities from the list."

ASHBEL GREEN, Secretary **ROBERT GIBSON, Chairman.**

*On certificates without nominal or par value the word "capital" may be omitted.

TO BE MADE PART OF APPLICATIONS WHERE APPLICABLE

Agreements

.....agrees with the New York Stock Exchange as follows:

Not to dispose of an integral asset or its stock interest in any constituent, subsidiary, owned or controlled company, or allow any of said constituent, subsidiary, owned or controlled companies to dispose of an integral asset or stock interest in other companies unless for retirement and cancellation, without notice to the Stock Exchange.

To publish statement of earnings quarterly.

To publish once in each year and submit to the stockholders, at least fifteen days in advance of the annual meeting of the Corporation, a statement of its financial condition, a consolidated income account covering the previous fiscal year; and a consolidated balance sheet showing assets and liabilities at the end of the year; or an income account and balance sheet of the parent company and of all constituent, subsidiary, owned or controlled companies.

To maintain, in accordance with the rules of the Stock Exchange, a transfer office or agency in the Borough of Manhattan, City of New York, where all listed securities shall be directly transferable, and the principal of all listed securities with interest or dividends thereon shall be payable; also a registry office in the Borough of Manhattan, City of New York, other than its transfer office or agency in said city, where all listed securities shall be registered.

To notify the Stock Exchange thirty days in advance of the effective date of any change in the authorized amounts of listed securities.

Not to make any change in listed securities, of a transfer agency or of a registrar of its stock, or of a trustee of its bonds or other securities, without the approval of the Committee on Stock List, and not to select as a trustee an officer or director of the Company.

To notify the Stock Exchange in the event of the issuance or creation in any form or manner of any rights to subscribe to, or to be allotted, its securities, or of any other rights or benefits pertaining to ownership in its securities, so as to afford the holders of its securities a proper period within which to record their interests, and that all rights to subscribe or to receive allotments and all other such rights and benefits shall be transferable; and shall be transferable, payable and deliverable in the Borough of Manhattan, City of New York.

To make application to the Stock Exchange for the listing of additional amounts of listed securities prior to the issuance thereof.

To publish promptly to holders of bonds and stocks any action in respect to interest on bonds, dividends on shares, or allotment of rights for subscription to securities, notices thereof to be sent to the Stock Exchange, and to give to the Stock Exchange at least ten days' notice in advance of the closing of the transfer books or extensions, or the taking of a record of holders for any purpose.

To redeem Preferred Stock in accordance with the requirements.

To notify the Stock Exchange if deposited collateral is changed or removed.

To have on hand at all times a sufficient supply of certificates to meet the demands for transfer.

.....

By.....

QUESTIONNAIRE.

(To be signed by an officer of the company)

.....193.....

This questionnaire accompanies application of the.....
.....
for the listing of.....

1—Is the management control of the Company held by any other Company through either stock ownership, lease or contract?.....

2—Are there within your knowledge any syndicate or concentrated holdings of this security?.....
.....

3—Is there any restraint on any portion of the security?.....

4—What dividends (if any), are in arrears on the preferred stocks either of the Company or of any of its subsidiaries?.....
.....

5—What dividends (if any) have been declared (and not paid) since the date of this application?.....

6—What rights (if any) to subscribe to any present securities or new securities remain unsettled as of the date of this application?.....

7—Are the transfer books to be closed or a record of stockholders to be taken in the near future for any purpose?.....

8—Has there been any change in your Charter or By-Laws since previous filing with the Committee?.....

9—Will you agree to publish quarterly statements of earnings showing net after all charges and taxes, and forward two copies to this Committee with a statement as to the manner and date of publication?.....
.....

10—Will you agree that all annual financial statements of the Company published for the benefit of stockholders will be in substantially the same form as contained in the listing application and with no less detail?
.....

11—If it is legal under your Charter will you agree to take a record of stockholders for dividends and meetings instead of closing your books?.....
.....

12—To avoid the congestion caused by the fact that numerous corporations have adopted the same date of record of stockholders for payment of dividends, will you agree to make your record date of stockholders for such purpose some date other than the 15th of March, June, September and December?.....

13—When and by whom was the last audit of your books prepared?
.....

14—Will you make copies of the audits of your books available to the Committee on request?.....
.....

15—Have any other reports of a financial, accounting or engineering nature been made either on your behalf or on behalf of any banker or underwriting or banking group within the past three years? If so, please indicate the character of these reports and state whether they will be made available for the inspection of this Committee upon request?.....
.....

16—Is there any litigation pending or threatened that would affect the Company's income from, title to, or possession of any of its property?.....
.....

17—Will you agree to maintain the office of your Transfer Agent and Registrar south of Chambers Street in order to facilitate business?.....

18—The Committee in order to facilitate the business of the Exchange, desires that the transfer agent of your Company be directed to sign the Stock Transfer Department receipts for all stock submitted by the Stock Clearing Corporation for transfer. Will you so agree?.....

19—Will you agree to issue new certificates replacing lost ones forthwith upon notification of loss and receipt of proper indemnity, making any changes which may be necessary in your Charter or By-Laws to permit this to be done?.....

20—Will you agree that all calls for redemption (Foreign Bonds) published abroad will be published on the same day or days in a newspaper of general circulation published in the Borough of Manhattan, City of New York?.....

21—If action on your application is favorable how many copies of the application do you require printed for you at your expense?.....

22—In the event any additional papers should be required for the Committee's files, will you agree to furnish same on request?.....

.....

By.....

Memorandum for Applicant.

Preliminary:

Four drafts of application.
One copy, Charters, By-Laws, Mortgages, etc.
One distribution.
Set of specimens.

The following papers, etc., are required to complete the files:

Check for $.....and letter of transmittal to accompany application.

1 Application, original signed copy (and 12 copies.)
Application, sign proof.
Application, final signed copy.
2 Charter, with amendments (certified by Secretary of State), (and copies).
3 By-Laws, with amendments (certified); (and 3 copies).
4 Leases (locations).
5 Special Agreements.
6 Resolutions:
a. Authorizing issues—stockholders.
b. " issues—directors.
c. " reservation for conversion.
d. " listing—appearance of.....
e. Appointing transfer agents and registrars.
7 Registrar's certificates as to amount registered.
8 Opinion of counsel.
9 Distribution (and 7 copies), all signed.
9a Notice from Transfer Agent as to amount issued.
10 Public authority certificate.
11 Report of engineer (or equivalent).
12 Map.

13 Specimens (temporary) approved.....
14 " (permanent) approved.....
15 " (altered) approved.....
16 Mortgage or indenture (and supplements) (certified) (and 3 copies.)
17 Trustee's certificate, showing: (a) acceptance of trust; (b) securities are issued in accordance with indenture; (c) disposition of securities redeemed or refunded; (d) collateral deposited; (e) disposition of prior obligations.
18 Certified copy of release or satisfactions of underlying mortgages.
19 Financial statements (certified).
20 Questionnaire.
21 Notice of availability of eligible security for trading (issue, transfers and exchanges). Notice from Company as to amount taken by underwriters.
22 Agreements.
Certificates of Deposit, Voting Trust, etc.
Certified copy deposit or trust agreement.
Certified copy circular issued by trustees or committee.
Certificate as to amount deposited.
Reorganizations:
Certified copy decree of foreclosure or dissolution.
Certified copy decree confirming sale.
Certified copy of court, authority for reorganization.
Certified copy of plan.

Classification by Amounts of Shareholdings

.....Company

Distribution of.....Stock

on.....193

							Shares
.....Holders of			1 -	100	share lots - -		.....
.....	"	"	101 -	200	" " - -		.....
.....	"	"	201 -	300	" " - -		.....
.....	"	"	301 -	400	" " - -		.....
.....	"	"	401 -	500	" " - -		.....
.....	"	"	501 -	1000	" " - -		.....
.....	"	"	*1001 -	up	" " - -		.....
.....Stockholders						Total Shares.....	

*The ten highest holders on the above date were as follows:

1.....Shares		6.....Shares	
2.....	"	7.....	"
3.....	"	8.....	"
4.....	"	9.....	"
5.....	"	10.....	"
		Total.....Shares	

All stock is free for sale and is held under no syndicate, agreeement or control.

Certified Correct.

(To be made out for each class of stock applied for)

Resolution to be Adopted by Applicant and Filed With Listing Committee.

RESOLVED that application be made to the New York Stock Exchange for the listing of.....
of this corporation and that.....be designated by the corporation to appear before the Committee on Stock List of said Exchange, with authority to make such changes in said application, or in any agreements relative thereto as may be necessary to conform with requirements for listing.

PRINCIPAL CONTENTS OF APPLICATION FOR LISTING OF THOMPSON-STARRETT COMPANY, INC.

(An operating company organized under the laws of Delaware December 3, 1928).

$3.50 Cumulative Dividend Preference Stock Without Par Value (Voting)

Common Stock Without Par Value (Voting)

	Preference Stock Shares	Common Stock Shares
Original listing:		
Authorized issue	160,000	600,000
Total outstanding	160,000*	600,000†
Total listing applied for	160,000	600,000
Certificate of Incorporation‡	Dec. 3, 1928	
Certificate of Amendment of Certificate of Incorporation	Feb. 12,1929	
Authorized by Directors	Dec. 13,1928 and Jan. 21,1929	
Authorized by Stockholders	Feb. 11,1929	

CAPITAL SECURITIES

STOCK	Par value	Number of Shares: Authorized by amended charter	Authorized for issuance	Previously listed	Authorized to be listed	Outstanding
Preference	None	160,000	160,000	None	160,000	160,000*
Common	None	600,000	600,000	None	600,000	600,000†

The Company has no funded debt.

*Including (as of December 14, 1929) 13,164 shares held by the Company.
†Including (as of December 14, 1929) 15,055 shares held by the Company and (as of December 17, 1929) 8,851 shares held by a trustee against surrender of warrants.
‡The Company has an unlimited existence.

New York, N. Y., December 20, 1929

Thompson-Starrett Company, Inc. (hereinafter referred to as the "Company") hereby makes application for the listing on the New York Stock Exchange of permanent certificates for

160,000 shares of $3.50 Cumulative Dividend Preference Stock without par value (voting) and permanent certificates for

600,000 shares of Common Stock without par value (voting),

all of which have been issued and, with the exceptions noted above, are now outstanding in the hands of the public.

All of said stock is full paid and non-assessable and no personal liability attaches to the stockholders.

Authority for Issue.

The Certificate of Incorporation of the Company was duly filed in the Office of the Secretary of State of the State of Delaware on December 3, 1928. It authorized the issuance of 660,000 shares of stock without par value, consisting of 160,000 shares of Preference Stock and 500,000 shares of Common Stock. These shares were issued, pursuant to authorization given on December 13, 1928 by the Board of Directors, in accordance with the terms of a reorganization agreement, as is hereinafter more fully described.

Pursuant to action of the directors on January 21, 1929 and the stockholders on February 11, 1929, an Amendment to the Certificate of Incorporation of the Company was duly filed in the Office of the Secretary of State of the State of Delaware on February 12, 1929, authorizing the issuance of an additional 100,000 shares of Common Stock without par value. These shares were issued in accordance with resolutions passed by the Board of Directors on January 21, 1929, and by the stockholders on February 11, 1929, to General Realty & Utilities Corporation in return for 100,000 shares of the common stock of that corporation and an option to purchase 50,607 additional shares of its common stock on or before February 1, 1939, at $10 a share.

History and Business.

The Company was organized to take over the business of Thompson-Starrett Company, a New York corporation (hereinafter referred to as the "predecessor") which had been engaged in a general contracting and construction business throughout the United States. Under the plan of reorganization, dated November 27, 1928, the Company acquired certain assets and the business as a going concern of the predecessor company in return for the note of the Company (which was paid from proceeds of the sale of its stock) 200,000 shares of its Common Stock and the assumption of certain liabilities of the predecessor company. The Company issued for cash 140,000 shares of its Common Stock, and 160,000 shares of Preference Stock to which were attached full paid warrants for an equal number of full paid and non-assessable shares of Common Stock. Said warrants became exercisable on and after August 29, 1929.

The Company and its predecessor have been engaged since 1899 in the business of constructing office buildings, apartment houses, industrial plants and the like. Since inception, they have not only commanded a great and growing volume of construction work, but have been identified with some of the most important building enterprises of the period throughout the United States. Among the buildings erected are (then follows a list of important buildings erected by the company.

(Then follow a description of the real property of the Company, the number of workmen employed, a description of the subsidiary company, Thompson-Starrett, Limited, of Canada, and a description of the depreciable assets of the Company).

Capital Changes and Dividends.

The Capital Changes and Dividend Record of the Company and its predecessor for the period from October 21, 1899 to October 24, 1929, is as follows:

	—Preferred or Preference Stock—			——Common Stock——		
For the period from	Dividends paid	No. of shares outstanding at the close of the fiscal periods	Dividend per share	Dividends paid	No. of shares outstanding at the close of the fiscal periods	Dividend per share
October 21, 1899 to March 31, 1903....	.....	.....	.....	$400,000.00 (3)	.....	.....
For the period from April 1, 1903 to April 30, 1904.....	$12,460.00	3,560	$3.50	.....	10,000	.....
Year ended April 30 1905.....	.....	.....	.....	.....	10,000	....
1906.....	.....	5,000	.....	68,000.00 (4)	10,000	$6.80
1907.....	40,000.00	5,000	8.00	68,000.00 (4)	10,000	6.80
1908.....	40,000.00	5,000	8.00	34,000.00 (4)	10,000	3.40
1909.....	40,000.00	5,000	8.00	68,000.00 (4)	10,000	6.80
1910.....	40,000.00	5,000	8.00	204,000.00 (4)	10,000	20.40
1911.....	40,000.00	5,000	8.00	356,025.00 (5)	10,000	35.60
				80,000.00	10,000	8.00
1912.....	40,000.00	5,000	8.00	100,000.00 (6)	15,000	6.66
1913.....	40,000 00	5,000	8.00	411,457.67 (5)	15,000	27.43
				120,000.00	15,000	8.00
1914.....	40,000.00	5,000	8.00	120,000.00	15,000	8.00
1915.....	40,000.00	5,000	8.00	120,000.00	15,000	8.00
1916.....	44,815.07	(1)	....	120,000.00	15,000	8.00
1917.....	63,000.00	15,750	4.00	90,000.00 (7)	18,750	4.80
1918.....	126,000.00	15,750	8.00	.....	18,750	....
1919.....	126,000.00	15,750	8.00	.....	18,750	....
1920.....	126,000.00	15,750	8.00	.....	18,750	....
1921.....	126,000.00	15,750	8.00	.....	18,750	....
1922.....	126,000.00	15,750	8.00	75,000.00	18,750	4.00
1923.....	126,000.00	15,750	8.00	75,000.00	18,750	4.00
1924.....	126,000.00	15,750	8.00	75,000.00	18,750	4.00
1925.....	126,000.00	15,750	8.00	112,500.00	18,750	6.00
1926.....	126,000.00	15,750	8.00	112,500.00	18,750	6.00
1927.....	122,180.36	(2)	8.00	112,500.00 (8)	46,875	2.40
1928.....	.....	.....	....	258,600.00 (9)	48,987	5.28
1929.....	140,000.00	160,000	.87½	499,655.00 (10)	600,000	.83
Six months to October 24, 1929.....	280,000.00	160,000	1.75	.....	600,000	...

Notes:

(1) Preferred Stock was redeemed on December 31, 1915. The amount of $44,815.07 includes the regular dividend of $8 per share to November 15, 1915 and from that date at the rate of $4 per share to date of redemption.

(2) Preferred Stock was redeemed at or prior to April 1, 1927. Dividends at the rate of $4 per share were paid from October 1, 1926 to actual date of redemption.

(3) Stock dividends. The capital paid up in cash for the period was $50,000.

(4) Dividends during the years ended April 30, 1906 to 1910, inclusive, were paid on 8,500 shares only. The dividends of $204,000 shown in respect of the year ended April 30, 1910 include payment of arrears of $16 per share. Dividends paid during year ended April 30, 1908, were $4 per share.

(5) These dividends were paid in securities, not in cash or Capital Stock.

(6) The dividends for the year ended April 30, 1912 represent $4 per share on 10,000 shares and $4 per share on 15,000 shares.

(7) The dividends for the year ended April 30, 1917 represent $4 per share paid July 1, 1916 and $2 per share paid October 1, 1916, both dividends being paid on 15,000 shares.

(8) The dividend for the year ended April 30, 1927 represents $6 per share on 18,750 shares. In January 1927, 2 ½ shares of new no par Common Stock were issued for each share of old no par Common Stock.

(9) The dividends stated for the year ended April 30, 1928 are as follows:

July 1, 1927 $2.40 per share on 46,875 shares	$ 112,500.00
Jan. 1, 1928 $3.00 per share on 48,700 shares	146,100.00
	$ 258,600.00

(10) The dividends stated for the year ended April 30, 1929, are as follows:

Preference:	
For three months to April 1, 1929	$ 140,000.00
Common:	
July 1, 1928 $3.00 per share on 49,885 shares	$ 149,655.00
Dec. 17, 1928 $7.00 per share on 50,000 shares	350,000.00
	$ 499,655.00

Financial Statements.

The following financial statements appear below:

The Company, its predecessor and subsidiary:

(1) Consolidated Profit and Loss Account for the four years and six months ended October 24, 1929.

(2) Comparative Consolidated Balance Sheets as at October 25, 1928 before and after financing, April 30, 1929 and October 24, 1929.

(3) Consolidated Surplus Account for two years and six months ended October 24, 1929.

The Company and its predecessor:

(4) Statement of paid-in surplus for the period from October 25, 1928 to October 24, 1929.

(The statements which follow are in turn followed by a statement of Preference Stock Provisions, agreements covering requirements of the Stock Exchange, general information, including date of ending of fiscal year, address of principal office, annual stockholders' meeting, names of directors and officers, transfer agent and registrar, and stock clauses from charter.)

THOMPSON-STARRETT COMPANY, INC., PREDECESSOR COMPANY AND SUBSIDIARY.

(1) CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE FOUR YEARS AND SIX MONTHS ENDED OCTOBER 24, 1929.

	Fiscal year ended April 30				6 mos. ended
	1926	1927	1928	1929	Oct. 24, 1929
Gross billings against contracts	$28,289,209.22	$34,556,171.32	$26,328,285.69	$21,294,877.34	$13,727,291.54
Cost	25,484,623.63	31,029,727.98	23,510,974.64	19,010,003.01	12,116,295.17
Construction profit	$ 2,804,585.59	$ 3,526,443.34	$ 2,817,311.05	$ 2,284,874.33	$ 1,610,996.37
*Administrative and general expenses not charged to contracts	1,272,235.85	1,270,980.76	1,337,421.90	1,189,076.07	708,103.20
Operating profit	$ 1,532,349.74	$ 2,255,462.58	$ 1,479,889.15	$ 1,095,798.26	$ 902,893.17
Other charges:					
Additional compensation to officers and employees	$ 246,169.20	$ 234,240.17	$ 260,000.00	$ 156,123.33	$ 90,000.00
Loss on uncollectible contract	.....	159,208.32	32,643.90	.....	.....
Interest paid	6,716.32	2,228.11	1,696.12	59.69	.....
	$ 252,885.52	$ 395,676.60	$ 294,340.02	$ 156,183.02	$ 90,000.00
Less—Other Income:					
Income on investments, etc.	$ 152,314.21	$ 197,909.83	$ 201,151.82	$ 295,255.88	$ 177,798.55
Gain or loss on securities	.....	54,591.24	2,887.78	18,612.94	.....
	$ 152,314.21	$ 143,318.59	$ 204,039.60	$ 313,868.82	$ 177,798.55
	$ 100,571.31	$ 252,358.01	$ 90,300.42	$ 157,685.80	$ 87,798.55
Net income before Federal income tax	$ 1,431,778.43	$ 2,003,104.57	$ 1,389,588.73	$ 1,253,484.06	$ 990,691.72
Federal income tax paid or accrued	192,752.95	286,428.47	168,379.57	104,059.45	117,700.00
Net income	$ 1,239,025.48	$ 1,716,676.10	$ 1,221,209.16	$ 1,149,424.61	$ 872,991.72
Net income per share of Common Stock based on shares outstanding at October 24, 1929—600,000 shares	$1.13	$1.92	$1.10	$.98	$.99
Note: *Includes depreciation charges on:					
Buildings	$6,013.76	$6,013.76	$6,013.76	$6,013.76	$3,006.88
Auto trucks	3,528.50	2,532.44	4,790.62	5,644.15	2,428.37
Construction equipment — Derricks, etc.	5,658.03	7,019.95	19,826.59	5,271.57	4,672.07
Construction equipment — Tools and lumber	74,838.89	18,176.66	17,785.92	38,139.14	18,995.90
	$ 90,039.18	$ 33,742.81	$48,416.89	$ 55,068.62	$ 29,103.22

(2) COMPARATIVE CONSOLIDATED BALANCE SHEETS AS AT OCTOBER 25, 1928 BEFORE AND AFTER FINANCING APRIL 30, 1929 AND OCTOBER 24, 1929

ASSETS

	Oct. 25, 1928 Before financing	Oct. 25, 1928 After financing	April 30, 1929	Oct. 24, 1929
Current assets:				
Cash in banks, on hand and on call	$ 3,288,188.95	$ 3,686,364.87	$ 2,924,645.36	$ 3,088,732.10
Marketable securities, at cost (market value October 24, 1929, $585,016.39)	563,439.91*	563,439.91*	546,564.91	596,718.89
Customers' accounts receivable	2,472,411.47	2,472,411.47	2,964,532.82	3,343,051.67
Notes receivable	.....	.....	113,800.00	144,500.00
Miscellaneous accounts receivable and accrued interest	51,290.88	51,290.88	99,208.37	118,354.55
Contract work unbilled	336,423.61	336,423.61	344,721.35	545,469.42
Total current assets	$ 6,711,754.82	$ 7,109,930.74	$ 6,993,472.81	$ 7,836,826.63
Prepaid expenses	27,015.12	27,015.12	29,134.40	15,558.78
Customers' notes (including accrued interest thereon) and accounts receivable—maturing after one year	501,226.19	501,226.19	417,348.44	1,093,833.58
Investments:				
100,000 shares common stock of General Realty & Utilities Corporation as valued by the Directors	.....	.....	2,000,000.00	†2,000,000.00
U. S. Government, state and municipal securities (on deposit as security) at cost (market value October 24, 1929, $148,217.85)	393,260.56*	393,260.56*	410,135.56	152,510.56
Other stocks and bonds—at cost	162,989.50	.....	.....	153,750.00
Third mortgage and accrued interest thereon, less reserve	585,186.42	.....	.....	.....
Advances for purchase of securities and participation in building loan agreement	.....	.....	27,531.16	449,595.75
Cash surrender value of life insurance policies	122,490.50	122,490.50	146,547.20	146,547.20
	$ 1,263,926.98	$515,751.06	$ 2,584,213.92	$ 2,902,403.51
Fixed assets:				
Land, as appraised April 1927	$260,000.00	$260,000.00	$267,577.15	$267,577.15
Buildings, at cost	90,206.44	90,206.44	90,206.44	90,206.44
Construction equipment and materials, at book value	563,499.73	563,499.73	583,580.66	572,449.15
Automobiles, at cost	33,784.99	33,784.99	25,095.71	33,548.01
	$687,491.16	$687,491.16	$698,882.81	$696,203.60
Less: Reserve for depreciation	$344,848.92	$344,848.92	$ 349,694.12	$ 347,165.36
	$342,642.24	$342,642.24	$349,188.69	$349,038.24
	$602,642.24	$602,642.24	$616,765.84	$616,615.39
	$ 9,106,565.35	$ 8,756,565.35	$ 10,640,935.41	$ 12,465,237.89

Notes:
*Valued at lower of cost or market.
†Market value on October 24, 1929 was $21.00 per share. The Company also holds an option expiring February 1, 1939 to purchase 50,607 shares of common stock of this corporation at $10.00 per share.

LIABILITIES

Current liabilities:				
Accounts payable:				
Sub-contractors	$ 2,020,366.01	$ 2,020,366.01	$ 1,802,209.00	$ 2,791,644.86
Trade	103,932.42	103,932.42	73,926.55	190,465.19
Miscellaneous	179,140.01	179,140.01	.....	.....
	$ 2,303,438.44	$ 2,303,438.44	$ 1,876,135.55	$ 2,982,110.05
Customers' billings in excess of recorded expenditures	127,996.37	127,996.37	142,857.09	172,233.86
Accrued liabilities and reserve for expenses	224,482.80	374,482.80	243,512.45	253,499.32
Reserve for Federal income tax	150,356.77	150,356.77	104,059.45	169,729.71
Reserve for insurance claims	222,374.72	222,374.72	181,961.85	209,768.86
Total current liabilities	$ 3,028,649.10	$ 3,178,649.10	$ 2,548,526.39	$ 3,787,341.80
Deferred credits	.....	.....	20,000.00	38,507.07
General reserve	200,000.00	200,000.00	178,293.52	152,281.80
Capital Stock:				
Present Company:				
$3.50 Cumulative Dividend Preference Stock without par value (preference on dissolution and redemption, price $55.00 per share and accrued dividends)—Authorized and issued, 160,000 shares (with warrants attached)	.....	3,500,000.00	3,500,000.00	3,500,000.00
Common Stock without par value:- Authorized and issued at date of refinancing 500,000 shares, and additional 100,000 shares issued in Febbuary 1929 (160,000 shares held against surrender of warrants*)	.....	$500,000.00	$600,000.00	$600,000.00
Predecessor company—Authorized and issued, 50,000 shares Common Stock of no par value	$ 1,953,105.00	.....	.....	.....
Surplus paid-in	.....	1,377,916.25	3,277,916.25	3,277,916.25
Surplus due to appraisal of land and investments	643,116.77	.....	.....	.....
Surplus including as at October 24, 1929 earnings of predecessor company for account of present Company from Oct. 26, 1928 to Dec. 18, 1928	3,281,694.48	.....	516,199.25	1,109,190.97
	$ 5,877,916.25	$ 5,377,916.25	$ 7,894,115.50	$ 8,487,107.22
	$ 9,106,565.35	$ 8,756,565.35	$ 10,640,935.41	$ 12,465,237.89

Notes:

Contractual obligations at October 24, 1929 as to purchase of securities, $250,000.00, and participation in building loan agreements, $1,168,192.84, representing loans in connection with uncompleted work on hand maturing within six months after final completion of work.

*As at October 24, 1929 warrants had not been surrendered for 12,698 shares.

(3) CONSOLIDATED SURPLUS ACCOUNT FOR TWO YEARS AND SIX MONTHS ENDED OCTOBER 24, 1929.

	Year ended		Six months ended	
	Apr. 30, 1928	Oct. 25, 1928	Apr. 30, 1929	Oct. 24, 1929
Adjusted surplus at beginning of period	$ 2,175,514.96	$ 3,138,124.12	.....	$ 516,199.25
Add net income for period:				
Predecessor company	1,221,209.16	493,225.36	.....	.....
Present Company	.....	.....	$ 656,199.25*	872,991.72
	$ 3,396,724.12	$ 3,631,349.48	$ 656,199.25	$ 1,389,190.97
Deduct:				
Dividends paid by predecessor company—Common Stock	258,600.00	149,655.00	.....	.....
Dividends paid by present Company—Preference Stock	.....	.....	140,000.00	280,000.00
Amount transferred to General Reserve	.....	200,000.00	.....	.....
	$ 258,600.00	$ 349,655.00	$ 140,000.00	$ 280,000.00
Surplus at end of period	$ 3,138,124.12	$ 3,281,694.48	$ 516,199.25	$ 1,109,190.97
Transactions incident to financing as of October 25, 1928:				
Add:				
Surplus from appraisal of land and investments		$ 643,116.77		
Proportion of proceeds from sale of Capital Stock applicable to paid-in surplus		1,523,364.67		
		$ 5,448,175.92		
Deduct:				
Mortgage stocks and bonds not acquired by new Company		748,175.92		
Dividend paid by predecessor company on Common Stock		350,000.00		
Amount transferred to reserve for expenses		150,000.00		
Balance transferred to paid-in surplus		4,200,000.00		
		$ 5,448,175.92		

Note

*Includes earnings of predecessor company for account of present Company from October 26 to December 18, 1928.

THOMPSON-STARRETT COMPANY, INC., AND PREDECESSOR COMPANY.

(4) STATEMENT OF PAID-IN SURPLUS FOR THE PERIOD FROM OCTOBER 25, 1928 TO OCTOBER 24, 1929

Amount transferred from Capital and Surplus as at October 25, 1928		$ 4,200,000.00
Deduct: Goodwill written off		2,822,083.75
Balance as stated on after financing Consolidated Balance Sheet		$ 1,377,916.25
Add:		
Book value of 100,000 shares of common stock of General Realty & Utilities Corporation and option to purchase an additional 50,607 shares at $10 per share	$ 2,000,000.00	
Less stated value of 100,000 shares of Common Stock of Thompson-Starrett Co. Inc., issued in exchange	100,000.00	1,900,000.00
Balance as at October 24, 1929		$ 3,277,916.25

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